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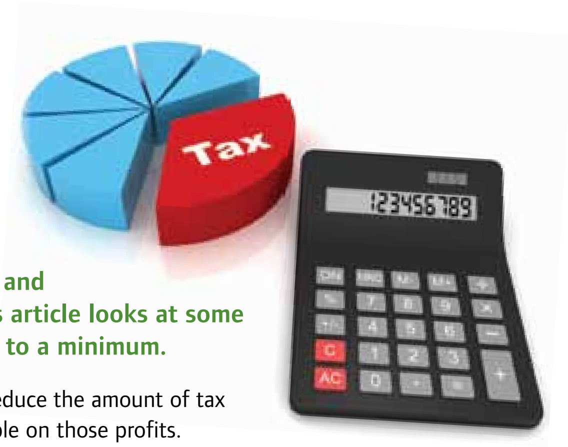
Client Newsletter

Protecting your profits...and reducing the tax bill



Corporation tax is payable by companies on their profits, and the rate of tax depends on the level of those profits. This article looks at some tax-saving tips to help keep your corporation tax liability to a minimum.

Companies whose profits do not exceed £300,000 pay the small profits rate of 20%, while companies with profits exceeding £1.5 million pay at the main rate (24% for the financial year to 31 March 2013 and 26% for the financial year to 31 March 2012). Marginal relief provides, in effect, a sliding scale rate of corporation tax for companies with profits between these limits.

Take advantage of allowable expenses

In calculating the profits chargeable for corporation tax, a deduction is given for expenses incurred wholly and exclusively for the purposes of the business. It is therefore advisable to carry out a review to ensure that all allowable expenses have been taken into account. These include wages and salaries, interest, insurance, accountancy fees, motor expenses, postage, travel expenses, pension contributions, and many others.

Consider the timing of expenses...

While there is often a tendency to delay incurring expenditure to save money or aid cash flow, this might not be the most tax-efficient option. By incurring expenses shortly before the year end rather than after, relief for those expenses is obtained 12 months earlier. With the main rate of corporation tax set to fall further over the coming years, incurring expenses earlier rather than later may provide relief at a higher rate.

...and the timing of income

By contrast, deferring invoicing until just after the year end could delay the payment of the associated corporation tax by 12 months. This can be beneficial from a cash flow perspective. Where the rate of corporation tax is falling, moving profits to a later year will reduce the amount of tax payable on those profits.

Use the annual investment allowance (AIA)

The AIA is a form of capital allowance which provides an immediate write-off against profits for expenditure on plant and machinery. The maximum AIA was reduced from £100,000 to £25,000 with effect from April 2012; please contact us for more details on the regime. Please note that certain items of capital expenditure over and above the £25,000 limit may qualify for 100% relief.

Utilise tax reliefs on capital gains

Companies pay corporation tax on chargeable gains. Unlike individuals, companies do not have the benefit of an annual allowance exemption, although indexation relief provides some protection against inflationary gains. Making the most of tax reliefs on capital gains, such as roll-over relief for business assets, can reduce the amount of corporation tax payable.

Make the most of losses

With the UK economy still struggling, many companies are reporting losses. However, we can review loss relief claims to ensure that losses are being utilised in the most tax-efficient manner – please contact us if you wish to discuss this further.

Please note that tax-saving strategies will depend on a company's individual circumstances, so please seek our advice before taking action.

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Inside this Issue...

Tax-efficient pension savings: carrying forward the annual allowance

Contributing to a registered pension scheme can be a tax-efficient way of saving for your retirement, as contributions attract tax relief at an individual's marginal rate of tax, subject to certain limits.

One of those limits is the annual allowance, which places a cap on the amount of tax-relieved contributions made in any tax year. The annual allowance was reduced from £255,000 to £50,000 from 2011/12. However, provisions apply which allow unused allowances to be carried forward for up to three years.

What counts towards the annual allowance?

The annual allowance is the amount by which pension savings can grow each year. Members of defined contributions schemes will need to look at total contributions (whether personal, employer or third party). Members of defined benefits schemes will have to work out how much their accrued pension has increased during the year.

It is important to note that contributions in excess of the annual allowance can be made to registered pension schemes. However, contributions which exceed the allowance do not qualify for tax relief. Where tax relieved contributions have been made in excess of the annual allowance, the relief is clawed back by means of an income tax charge.

The three year carry-forward rule

Unused allowances can be carried forward for up to three years. It is possible to make pension savings of more than £50,000 in a tax year if unused allowances are available from one or more of the previous three years.

The carry-forward rule was introduced from 2011/12. For 2008/09, 2009/10 and 2010/11 allowances can be carried forward where actual pension savings are less than an assumed allowance of £50,000. The amount carried forward is the difference between £50,000 and the amount of tax relieved pension savings for the year.

> "It is possible to make pension savings of more than £50,000 in a tax year"

Carrying forward your unused allowances

There are strict rules as to the order in which available allowances must be used. The annual allowance for the current year is used first. Carried forward allowances are then used, with the earliest year's unused allowances utilised first.

Example

Polly makes total pension savings to registered pension schemes as follows:

Year	Pension savings	Unused allowance
2012/13	£75,000	Nil
2011/12	£20,000	£30,000
2010/11	£60,000	Nil
2009/10	£30,000	£20,000

The £50,000 annual allowance for 2012/13 is used to shelter the first £50,000 of 2012/13 contributions.

The remaining contributions of £25,000 are sheltered by £20,000 of unused allowances carried forward from 2009/10 and £5,000 of the £30,000 of allowances carried forward from 2011/12.

Due to the availability of the allowances carried forward, Polly can make tax-relieved contributions of £75,000 in 2012/13, despite the fact that this is more than the £50,000 annual allowance for the year.

The remaining unused allowances from 2011/12 (£25,000) can be carried forward to 2013/14 and 2014/15.

We can advise on a wide range of tax and financial planning issues. Please contact us for assistance.

Employee 'smartphone tax' is axed

Smartphones such as iPhones, BlackBerry and many android-powered devices are no longer subject to tax as a 'benefit in kind', following a change in policy by HM Revenue & Customs (HMRC).

Unlike ordinary mobile phones, which can be provided tax-free to employees, smartphones were previously treated as a taxable benefit. This is because HMRC argued they were not primarily designed to make or receive voice calls, as the exemption requires.

However, the soaring popularity of such devices, along with technological advances, has led HMRC to acknowledge that android and smartphones now conform to their definition of 'telephone apparatus' and will therefore no longer be subject to tax.

Consequently, employers can now provide these devices to any number of employees without incurring a tax or national insurance contributions (NIC) charge.

Yet devices that only provide Voice Over Internet Protocol (VOIP) – a technology for making free or cheap calls over the internet – will not qualify for the tax exemption. This means that iPads and other tablet computers will still be subject to the old rules.

Please contact us for further advice on tax-efficient benefits and expenses.

A family affair? Tax planning and the family company

The flexibility inherent in a family company offers a number of tax planning opportunities. Here we consider some of the ways in which family companies can reduce the overall tax bill.

Paying dividends

Paying dividends rather than a salary or bonus can be a particularly tax-efficient way to extract profits, as there are no employees' or employers' NICs payable. In the hands of the recipient, no further tax is payable until the basic rate limit is reached, as income tax at the dividend rate of 10% is offset by the tax credit attached to the dividend. Dividend income over £34,370 is taxed at 32.5%, while dividend income over £150,000 is taxed at 42.5% (2012/13).

However, the company must have sufficient retained profits in order to pay dividends. Dividends must be declared properly in accordance with company law requirements. They should also be paid in relation to all shareholdings (though not necessarily to all shares of different classes).

Small salary

It may be advantageous to pay a small salary to retain the individual's contribution record and preserve entitlement to the state pension and contributory benefits. If the salary is between the lower earnings limit and the primary earnings thresholds for NICs, the contributor is deemed to make notional contributions, thereby preserving the contribution record without triggering an NIC liability. Keeping the salary below the secondary threshold ensures that no employer contributions are payable. For 2012/13 this will be achieved with a salary of between £107 and £144 per week. As this is below the personal income tax allowance, in most cases the salary can be paid tax-free.

Spouses' allowances

Within a family company scenario, utilising the personal allowances and basic rate bands of all family members will help to reduce the family's overall combined tax bill. From a tax viewpoint, it is more favourable for both spouses/civil partners to receive an income of, say, £35,000 a year, than for one to receive £70,000 and the other nil. Equalising income where possible ensures that you will both pay tax at the lowest possible rate, thereby reducing the overall combined tax bill.

Please contact us if you wish to explore this option in more detail.

It must be noted, however, that HMRC has made challenges under the settlements legislation, most notably in the Arctic Systems case, in an attempt to tax dividends received by one spouse as income of the other.

Pension contributions

Pension contributions attract tax relief at the taxpayer's marginal rate of tax, providing that the relevant limits are not exceeded. Contributions made by the company are usually tax deductible when computing corporation tax. Paying pension contributions can be very tax-efficient. In a family company situation, you might want to consider purchasing the business premises through a Small Self Administered Scheme (SSAS) or a Self-Invested Personal Pension (SIPP) and renting them to the company.

In such cases the rent received will not be taxed in the SSAS/SIPP and the company should receive a tax deduction for the rent paid.

As always, it is important to seek professional advice to identify those strategies best suited to your particular circumstances.

The 2012 Budget: Some key measures

The 2012 Budget contained some contentious measures such as the so-called 'granny tax' and 'pasty tax', along with other significant announcements on business and personal taxation.

Business measures

Corporation tax

The Chancellor doubled the reduction in corporation tax, bringing the rate down to 24% in April. The main rate will be further reduced to 23% for the financial year commencing 1 April 2013 and to 22% for the financial year commencing 1 April 2014.

Research and development (R&D)

The additional corporation tax deduction given to SMEs for qualifying R&D expenditure has risen from 100% to 125% in respect of expenditure incurred on or after 1 April 2012. The Government will introduce an 'above the line' R&D tax credit from April 2013 with a minimum rate of 9.1% before tax. Loss making companies will be able to claim a payable credit.

Tax calculations for smaller businesses

From April 2013 a new cash basis for calculating tax for small unincorporated businesses will be introduced. The Government will consult on the details of the scheme, including extending eligibility to businesses with turnover up to the VAT registration threshold of £77,000.

Personal measures

Income tax and personal allowances

The 50p additional rate of income tax will be reduced to 45p with effect from April 2013.

Further to the recent increase in the income tax personal allowance, the allowance will rise again in 2013, to £9,205. The Chancellor also announced that the age-related personal allowances will be frozen from 2013/14, and will not be available for anyone turning 65 after 5 April 2013.

Stamp Duty Land Tax

A new 7% Stamp Duty Land Tax rate now applies to properties worth more than £2 million. A 15% duty applies to residential properties worth over £2 million that are purchased by certain 'non-natural persons'.

Unlimited tax reliefs

A new cap will also be applied, from April 2013, on previously uncapped income tax reliefs to prevent individuals from claiming relief in excess of £50,000 (or 25% of their income if greater).

Changes to Child Benefit

From 7 January 2013 a new income tax charge will apply to individuals who receive Child Benefit, or whose partners receive Child Benefit, where income is more than £50,000 for the tax year. If both partners exceed this threshold, the charge will apply to the partner with the highest income. For those with income between £50,000 and £60,000, the benefit will be clawed back by 1% for every £100 of earnings in excess of £50,000.

For more advice on how the Budget measures affect you and your business, please contact us.

Tax Round-Up

HMRC begins collecting debts through PAYE

HMRC can now collect unpaid Self Assessment bills and tax credit overpayments through a taxpayer's PAYE code.

From April 2012 HMRC began including debts in 2012/13 tax codes. It means that the Revenue can collect debts up to the value of £2,999 by amending the tax code of individuals in employment who pay through PAYE, or who have a UK pension.

Last year HMRC wrote to those affected offering them the opportunity to arrange to pay the outstanding amount by another method.

Information about recovering debts from PAYE codes is published on HMRC's website: **www.hmrc.gov.uk/payinghmrc/taxcode-vdp.htm**

HMRC turns up the heat on tax evaders

Meanwhile, HMRC is planning to step up its campaign to tackle tax evasion throughout 2012/13. It has confirmed that 30 new tax taskforces will target various industries including indoor and outdoor markets, the motor trade and clothing sellers.

The tax authority is also extending some of the task forces from 2011 to different locations, including the scrap metal task force launched in Scotland in November. The Revenue already expects to collect more than £50 million as a result of 12 taskforces launched last year and ongoing criminal investigations.

Government extends tax breaks to electric vans

Businesses are being offered tax incentives to purchase electric vans as part of a Government scheme to reduce carbon emissions.

The Government published a list of vans eligible for the new Plug-in Van Grant earlier this year. They include the Renault Kangoo, the Daimler Mercedes-Benz and the Smith Edison.

Under the scheme, buyers can get 20% off the cost price of a qualifying new vehicle, up to a maximum of £8,000. The grant is open to both business and private buyers, subject to state aid restrictions.

The initiative, which is an extension of the Plug-in Grant launched for ordinary domestic cars last year, is aimed at increasing the uptake of electric vehicles amongst the business community.

As well as receiving tax breaks with the scheme, businesses that use electric vans can also benefit from reduced refuelling costs, zero-rate company car tax, capital allowance concessions and, for those driving in London, a 100% discount for the congestion charge.

Further information on the scheme is available on the Department for Transport website: **www.dft.gov.uk**.

Tax Tip

Did you know…

Foreign athletes and other staff taking part in this Summer's London 2012 Olympic Games will be exempt from paying income tax. The exemption lasts from 30 March 2012 to 8 November 2012.

Performers at the official opening and closing ceremonies will not pay tax either on payments for their performances and rehearsals.

If you want to give Olympics tickets to your staff, for example as a prize to the best salesperson, the usual HMRC expenses and benefits rules apply.

Enjoy the Games…

Reminders for your Summer Diary

June

30 End of CT61 quarterly period.

Annual adjustment for VAT partial exemption calculations (March VAT year end).

July

6 Deadline for submission of Form 42 (transactions in shares and securities).

Deadline for submission of EMI40 (EMI Annual Return). File Taxed Award Scheme Returns, file P11Ds, P11D(b)s and P9Ds. Issue copies of P11Ds or P9Ds to employees.

14 Due date for income tax for the CT61 period to 30 June 2012.

19/20 Quarter 1 2012/13 PAYE remittance due.

Final date for payment of 2011/12 Class 1A NICs.

Second payment due date for 2011/12 Class 2 NICs.

31 Second Self Assessment payment on account for 2011/12.

Annual adjustment for VAT partial exemption calculations (April VAT year end).

Liability to 5% penalty on any tax unpaid for 2010/11.

Deadline for tax credit Annual Declaration (if estimated, final figures required by 31/01/13).

August

2 Submission date of P46 (Car) for quarter to 5 July.

31 Annual adjustment for VAT partial exemption calculations (May VAT year end).

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