dns accountants

Tax saving tips

The business

Introduction

HMRC assesses taxes annually and many allowances are also allocated annually. Hence there are many opportunities to optimise your taxes just by planning and timing your actions.

Additionally, HMRC wishes to promote some types of action, so it may be to your advantage to take these opportunities, while available.

Here we have outlined some of the key opportunities available to you

If you want to know more about any of these or book a meeting with an independent financial advisor, then do contact dns accountants

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Income management

Tax is assessed on business profits. So, the first tip is to make sure you miss nothing.

- Include all income, even bad debts, as this justifies related costs
- If there are bad debts then these count as expenses, as do attempted collection costs
- Expense everything you incur for business – once you start deciding to miss things then you will be paying more tax than necessary and fooling yourself as regards how the business is doing
- Business use of personal items is also a business expenses – note it down, your accountant can help you arrive at the tax allowable expense
- Second hand goods, previously belonging to you but now used by the business, are also tax allowable, and a way of extracting cash from your company
- Collect receipts –these justify costs and allow VAT recovery
- Know/learn rules & deadlines - so you do not incur penalties
- If you are considering changes or big purchases, then consult your dns Accountant for the tax consequences
- Plan the timing of big or irregular events & costs – so you do not suffer from too many surprises
- Never miss pre-trading expenses

If in doubt, then ask your dns Accountant – do not just forget it

Business structure

Once you know your regular business activity then you need to make sure you have an appropriate business structure that meets the needs of you, your business, any business partners or associates, customers and suppliers, and is as tax efficient as possible.

You may have made this assessment when you first started in business but remember that it should be reviewed regularly, especially when changes happen. You also need to know when the next trigger point is reached.

- Have you got married/divorced? – New family members may mean new opportunities or associates
- Have your business relationships changed e.g. end of big contract?
- Has the business grown, or shrunk?
- Are you making new plans – location or expansion?

Do talk to dns accountants about your new opportunities.

VAT status

If your business turnover is over £85,000 then you have to be registered for VAT. However, there are many VAT schemes, some of which may or may not benefit you, including voluntary registration. It is therefore a good idea to periodically review your situation.

- Has your turnover dropped – would it be a good idea to de-register?
- Are you still on flat rate – is this still the best for you?
- Are you stopping/starting to trade with Europe – how does this effect you?
- Are you CIS registered? Would monthly VAT returns benefit you?

VAT recovery

If your business is registered for VAT then you should be able to reclaim VAT on your purchases. But preparing for VAT recovery should start sooner.

- You can only recover VAT is you have a receipt with a UK VAT number on it so collect and file your receipts.
- VAT can be recovered on assets held at date of registration and purchased within the previous 4 years – so keep VAT receipts for asset purchases even if not yet registered.
- You can only recover VAT on business purchases, but if a bill is part business and part personal then you can claim the VAT on the business part.
- If the company is reimbursing you as employee then VAT may still be recovered on those reimbursed expenses e.g. new computer, business call on your home phone.
- You can recover the VAT on the petrol proportion of business mileage claims.
- You can claim VAT on staff meals including staff functions – but not if entertaining others.

Family company

When you are in business then it is very common for family to become involved so do take the tax opportunity that comes with this.

Other family members have personal allowances the same as you - for wages and dividends etc. When already sharing income or expenses then to pay them direct out of the company, using their allowances instead of yours, can be very tax efficient.

You as director and any family members on the payroll are classed as employees, who are therefore entitled to employee benefits see Tax Savings Tips Guide for Employees.

Do talk to dns accountants about your planning opportunities.

Capital allowances

Equipment purchased for business may qualify for 100% capital allowance (a deduction from taxable profits) at time of first business use. Otherwise it may qualify for just 18% or less annual allowances. Hence planning the timing and nature of large purchases can be critical for tax bills.

- There are currently 100% allowances for energy or water saving plant or machinery, but these are due to stop in April 2020. HMRC has a list of qualifying products.
- There is currently 100% allowance for most purchases of plant and machinery (including vans & lorries) up to £1m – a temporary increase from £200,000 for the period 1st January 2019 to 31st December 2020. The problem is for those whose business year end is not 31st December – these limits are pro rata so the month of purchase may be critical. Do talk to dns accountants about your plans.
- There are currently 100% allowances for purchases of new unused low or zero emission cars & new unused zero emission goods vehicles, but these are due to stop April 2021.
- There are special rules for business structures & buildings. So whether purchasing, building or restructuring then do talk to dns accountants before incurring any of these costs.

Business property

If purchasing/selling then classification and value split, between land, structure, integral features, plant & equipment and goodwill, can have big consequences for all taxes including VAT & stamp duty. Hence do consult accountants as well as solicitors before agreeing the purchase price – specialist valuers may also be advisable to identify and hence maximize capital allowances for integral features.

There are new allowances available for building business property and good records need to be kept. To know more then do talk to your dns accountant.

If renovating then it is a good idea to talk to dns accountants at the planning stage as there may be VAT and or tax savings to be made based on how the worked is planned, quoted and billed.

Home office rent

A freelancer or sole-trader working from home may claim a proportion of the household costs associated with the business use. However, as an employee the director of a limited company cannot do this.

The alternative is Rental Planning whereby the director enters into a rental agreement with the company on a commercial basis to provide his residence to the company. The Director then receives rent, which as taxable income is included on his personal tax return, along with a claim for a proportion of all expenses; thus resulting in a tax saving for the company and tax efficient extraction of funds.

If you own the property, then costs can include mortgage interest but not capital repayments. If the property is a rented one, the rental charges need to be captured. Also, you can include costs that are paid jointly but not costs that are being paid completely by someone else. Other costs that can be included are insurance, council tax, gas, cleaning, service charges, and electricity.

Then to calculate what proportion of the cost would be fair to apportion to the business, a simple method of computing may be:

- count the number of rooms in the house excluding hallways, bathrooms, and kitchens e.g.6
- estimate the number of rooms used for business, taking into account time used for business verses time used for other things e.g.50% of dining room plus 100% of study = 1.5 rooms
- apportion above captured costs to the business in this proportion i.e. 1.5/6

An important tip: The entire o ce room should not be used for business. A small portion of the room must be kept for personal use as this protects the home owner from possible capital gains.

Loan interest claims

If you borrow money to loan in your business, then the interest on that loan is a tax allowable deduction for your business, if paid by the business e.g. back to back loan and repayments.

If you borrow money to lend to a business, not necessarily your own business, then the interest you pay on that loan is an allowable deduction against your income – claimable via your personal tax return.

In these cases, it is the purpose of the loan that merits the tax deduction not the security – so the loan maybe an extension to your home mortgage.

Loan interest

But you do not need to borrow the money to benefit. If you lend money to your own company then that company can pay you loan interest, that it can claim for tax relief and on which you may not pay tax (if less than your personal savings allowance).

This can be a useful way to extract tax free funds as the individual can charge interest to the company at the market rate.

However, the company must have had a reason to borrow, and the interest must be reported to HMRC and paid to the individual after deduction of basic rate tax.

If you would like assistance with this then do contact dns accountants.

Research & Development (R&D)

Many businesses develop new products themselves. HMRC wishes to promote advances in technology. Hence if your business is conducting innovative work in science then it is worth investigating the extra tax reliefs available.

Some reliefs are available to subcontractors as well as owners of the intellectual property, but you cannot claim if the project is state funded e.g. grant. The project does not have to be successful, or patented, just related to your business activities.

Do keep a note of relevant costs per project, as a report on the work and innovations is required to claim these reliefs. The project may be to research or develop a new process, product or service, or even just improve an existing one but must include an advance in the field.

Reliefs available to Companies

- Enhanced deduction from income – 230% of costs instead of 100%
- Potential cash refund of 14.5% of loss resulting. The net result, due to the enhancement, can be a claim of up to 33% of the losses as a cash refund
- 12% credit against tax bill instead of above

To find out more then please talk to dns accountants – specialist valuers may also be advisable to identify and hence maximize costs to include in your claim.

Dividend waivers

A dividend waiver is when someone legitimately entitled to receive a dividend, decides to waive that right – effectively giving that money back to the company rather than taking it as their taxable income.

Dividend waivers can be a great planning opportunity, however for this reason HMRC tend to keep a keen eye on their use. They must be executed in the right way and with caution so as not to rigger anti-avoidance legislation.

Planning points:-

- A formal deed is required – in appropriate paper form, signed and witnessed
- The deed must be dated before the dividend arises
- There must be good commercial reasons for the waiver, ideally stated in the deed
- Only waive dividend rights occasionally, as repeated use can attract HMRC attention
- Never offer inducements to encourage dividend waivers.

If you are considering a dividend waiver then the fist step is to inform your dns accountant so it may be properly planned.

Alphabet share planning

Shareholders own shares and are rewarded by the receipt of dividends. However, there is no need for every shareholder to receive the same benefits. The law says every shareholder of a class of shares has the same rights but a company can create several classes of shares A class, B Class etc. and give each class different rights as regards voting, receipt of dividends and share of capital on sale or winding up.

To discuss this further talk to dns accountants.

SSAS pension

A Small Self-Administered Scheme (SSAS) Pension fund is a great way to invest for your future, in a tax-free environment.

In addition to the usual tax exemptions available for pension arrangements, SSAS's can offer other benefits for entrepreneurial business owners including:-

- Purchasing commercial property to be leased back to your business (or third party)
- Loans to the sponsoring employer
- Investing in your business by buying an equity stake
- Transferring assets from you, or your family

If your loved ones or family members also become members of the scheme, then they can make the most of what you leave behind without any inheritance tax penalties.

Please contact dns accountants or your Independent Financial Advisor to learn more.

Family investment

If you have a good business that is set for generations to come, then you may like to consider getting all the different generations involved; and stay involved to keep inheritance tax low.

Shares in private limited companies have good inheritance tax breaks, Hence, this structure is also useful if getting older generations to invest in your business, with the tax benefits.

Please note these inheritance tax breaks are only available to trading businesses/assets not investment assets such as rental property.

Family investment companies

With the increasing burden of alternative structures, companies have now come into play for family investments e.g. a property portfolio. The company may be structured such that one generation puts in the capital and another reaps the benefits (if any). Additionally, ownership is split such that capital taxes are never assessed on the whole.as there is little anticipate of there ever being a wholesale disposal of assets.

Do take advise about specific rights to be allocated to shares and an accompanying shareholders agreement.

Conclusion

This guide is only a quick insight into what may be available at the time of writing. Each circumstance is unique and HMRC is always changing the rules and guidance for implementation.

Please speak to dns accountants about what is currently available to you before taking any actions.

There is no limit to tax saving and planning, and there may be new opportunities available to you. We are passionate for our clients to pay the least amount of tax legally.

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- Tax saving tips – The employee

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Get in touch

DNS House, 382 Kenton Road,
Harrow, Middlesex, HA3 8DP

www.dnsaccountants.co.uk

info@dnsaccountants.co.uk

03300 88 66 86