WARR & CO
CHARTERED ACCOUNTANTS

A Guide to... Tax Saving Opportunities For Companies

Tax legislation is forever changing, so it should not be assumed that action taken last year is still the right thing to do this year. This is why professional advice should be sought each and every year.

Any such planning should be considered prior to the company accounting year-end, and also prior to 5th April when planning is being considered for directors / shareholders. The performance of a company throughout a trading year can be predicted with some degree of accuracy with management accounting information, either prepared in house or with the assistance of your accountant. The well timed analysis of this information allows a suitable strategy to be considered and any decision to be an informed one and one which is not rushed as a result of leaving matters to the last minute.

We have detailed below some of the areas that you may like to consider and discuss with your accountant.

Corporation Tax

Advancing expenditure

Expenditure incurred prior to a company's accounting year-end may reduce the current years tax liability. Where expenditure is expected to be incurred early within the next accounting year, it may be beneficial to bring this forward. Advancing expenditure by a few weeks may mean the resulting tax saving occurs a full 12 months earlier.

As well as financial commitments such as building repairs, advertising, marketing, and salary bonuses for example, this same approach applies to pension contributions made on behalf of directors and employees.

Capital Allowances

With effect from 1st April 2008, all companies regardless of size are able to claim an annual investment allowance of £50,000, providing 100% relief on expenditure such as plant and machinery (excluding cars) in the year of purchase. The allowance is shared amongst all associated companies.

Trading Losses

Companies incurring trading losses have three main options to consider in utilising these: -

- They may be set against any other income (for example bank interest) or capital gains in the current year.
- They can be carried back for up to 1 year and set against total profits.
- They can be carried forward and set against trading profits arising in future years.

Extracting Profits

Directors / shareholders of Limited Companies may wish to consider extracting profits in the form of dividends rather than as increased salaries or bonus payments. The key reason for this approach is that, unlike salary or bonuses, dividends do not crystallise an employee or employer National Insurance liability. It should, however, be remembered that profits withdrawn in this manner are subject to Corporation Tax at a minimum rate of 21%.

Dividends
The timing of dividend payments is not crucial to the company but is to the individual receiving them, as the amount of dividends received will be assessed as income within a tax year, i.e. 6th April to 5th April the following year. The strategy for any payments should be carefully thought through, giving due consideration to the timing and amount. For example, deferring a payment from 5th April to 6th April in any one calendar year, results in a 12-month deferral of any resulting Income Tax liability as it will be assessed in the following tax year. Equally, where personal expenditure allows, shareholders may wish to restrict payments to a level within the basic rate Income Tax threshold.

Loans
Where loans are granted to directors or shareholders, a tax liability may arise on the company. If the loan is not repaid within nine months of the accounting period in which the loan was provided, the company will be subject to a tax equivalent to 25% of the loan to HMRC. This is not repaid to the company until 9 months after accounting period in which the loan is repaid.

A tax liability may also arise on the benefit of a loan provided at an interest rate less than 6.25% per annum. This rate applies for the 2008/2009 year and is reviewed annually.

Rates of Corporation Tax

Profits	Corporation Tax
£0 to £300,000	21%
£300,001 to £1,500,000	29.75%
£1,500,000 +	28%

Forthcoming Changes
With effect from 1st April 2009, the smaller company's rate on profits up to £300,000 will increase from 21% to 22%. The full rate of 28% will remain unchanged. As a consequence, the marginal rate will decrease to 29.5%.

Capital Gains

Companies are chargeable to Corporation Tax on their capital gains less allowable capital losses.

Indexation Allowance
In order to counteract the effect of inflation, an indexation allowance is provided. This reduces the value of a gain but it cannot be used to create or increase a capital loss.

Planning Disposals
Consideration should be given to the timing of any chargeable disposals so that, where possible, advantage can be taken of lower rate of Corporation Tax or where a gain can be used to offset against losses.

Purchase of New Assets
It may be possible to avoid being taxed on a crystallised gain by reinvesting into a qualifying replacement asset.