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McEwanWallace

Chartered Accountants
Business Advisers



Pre year end planning tips for companies


Chartered Accountants & Business Advisers

Payroll Bureau

Taxation

Wealth Management

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The team are committed to getting close to your business so they can develop a thorough understanding of your current position and your aspirations going forward. They then make it their mission to get you to your goal in the most tax-efficient way possible.

KEN CURTIS
CHAIRMAN
BAGNALL & MORRIS (WASTE SERVICES) LTD



Lower corporation tax rates

A single corporation tax rate of 20% has applied since 1 April 2015 regardless of the level of the company's profits.

In the Summer 2015 Budget it was announced that this would reduce to 19% in April 2017.

The Chancellor has now announced that this will be reduced to 17% from 1 April 2020.

NEW CORPORATE TAX LOSS RULES

There will be more flexibility for utilising corporate tax losses starting after 1 April 2017.

Companies will be able to use brought forward losses incurred after 1 April 2017 against profits from other income streams, or from other companies within a group.

However, large companies with profits in excess of £5m will only be allowed to offset brought forward losses against 50% of the amount of profit in each future period.

Timing of expenditure

- ▲ Can any revenue expenditure be accelerated before the year end, in order to claim tax relief as early as possible?
- ▲ Review your irrecoverable bad debt and other specific provisions to maximise the deduction for the year.
- ▲ Employ strategies to avoid overvaluing stock and work in progress.
- ▲ Consider improvements to your billing and record keeping systems, where necessary, to improve cash flow and profitability.
- ▲ Donations to charity are tax deductible, but only if you are making profits. Donations cannot create or increase a loss. Therefore, ensure you get the timing of donations right to maximise the tax relief.



Maximise capital allowances

If you are planning a renovation, repairs or capital expenditure, this is a good tax planning opportunity to maximise relief, under either the capital allowance schemes, detailed below, and/or by maximising the amount qualifying for revenue relief.

ANNUAL INVESTMENT ALLOWANCE (AIA)

From 1 January 2016 the AIA, which gives 100% relief on qualifying plant and machinery additions, was reduced from £500,000pa (for the period 1 April 2014 to 31 December 2015) to £200,000pa.

Your allowance for the current year may be lower if your accounting period straddles 1 January 2016 or you have associated companies. Please contact us if you would like us to calculate your allowance for the rest of the year.

100% ENHANCED CAPITAL ALLOWANCE SCHEME (ECA)

The ECA scheme provides 100% tax relief to encourage investment in certain qualifying energy and water saving technologies like boiler equipment, air dryers, air heaters, lighting, refrigeration,

water pumps, WC equipment and industrial cleaning.

If you are planning such capital expenditure, you should consult the product lists at the following web addresses to see what will qualify for 100% allowances, or ask your supplier:

<http://etl.decc.gov.uk/etl>
and <http://wtl.defra.gov.uk/>

BUSINESS PREMISES RENOVATION ALLOWANCE (BPRA)

This valuable relief is due to end 31 March 2017. It gives 100% relief for the capital cost of renovation or conversion of qualifying derelict business premises in an assisted area. There is a postcode checker at <http://www.ukassistedareamap.com/ieindex.html>

There are a variety of conditions which must be met in order for the expenditure to qualify, so please contact us for further advice.

ENTERPRISE ZONE 100% ALLOWANCES

As well as business rate relief, qualifying businesses within an Enterprise Zone may be able to claim 100% capital allowances on investment in new (not second hand) plant and machinery.

The expenditure must relate to an expansion of the business, or starting up a new activity not previously carried out, or a fundamental change in production. There are exclusions so please contact us for further advice.

Company vehicles

You can also claim 100% relief for the purchase of:

- ▲ New electric cars and cars with low CO2 emissions of not more than 75g/km if bought before 1 April 2018, this will be reduced to 50g/km after April 2018.
- ▲ Zero emission goods vehicles bought before 1 April 2018. The allowance is given on new (not second hand) vehicles which cannot in any circumstances emit CO2 by being driven. There are excluded businesses and expenditure will not qualify if subsidised by a grant.
- ▲ New vehicle gas refuelling equipment to refuel vehicles with natural gas, biogas or hydrogen fuel. It does not need to be open to the public or be used for cars.

There are reduced car benefit tax rates for environmentally friendly cars and vans. Are your children learning to drive? You could provide them with an

eco-friendly, tax efficient car through the company.

However from April 2017, the rates are increasing and could almost double by April 2019. For example, a small petrol/hybrid car bought for £16,000 with CO2 of 75g/km will provide a 100% first year allowance in the company.

The basic rate company car tax charge this year would be £1,760pa. By 2019/20, the annual tax charge would be £3,040.

Leased cars – Those with CO2 emissions of less than 130g/km will attract full tax relief for the lease repayments made. Less eco-friendly cars will only attract 85% relief. From April 2018, the limit reduces to 110g/km.



Profit extraction / staff costs

Employer's National Insurance contributions – The employment allowance increased to £3,000 with effect from April 2016. However it is no longer available to companies where the Director is the sole employee. Please contact us if this affects you as there may be a tax planning opportunity.

You need to claim the allowance through your payroll software, if our Payroll Bureau looks after your payroll we will claim this on your behalf. Please note that if you are part of a group or run more than one payroll, you can only claim one allowance.

Employer's NIC has been abolished for employees under the age of 21, unless the earnings exceed the UEL. (Upper Earnings Limit)

From April 2016, Employer's NIC was also abolished for apprentices under the age of 25, again on earnings up to the UEL.

Pay pension contributions before the end of the accounting period – Corporation tax relief for pension contributions is given on a paid basis, rather than on an accruals basis, so ensure that pension contributions are actually paid by the year end. The rules relating to pension contributions are complex and advice should be taken before making any substantial contributions.

Legislation came into force on 8 July 2015 to align pension input periods (PIPs) with the tax year for all contributors to tax approved schemes. All PIPs came to an end on 8 July 2015 and new PIPs started for all contributors on 9 July 2015 and will run to 5 April 2016. So, contributors will have either two or three PIPs falling in the tax year 2015/16, depending on when their previous PIP end date was.

Profit extraction / staff costs

Make sure you are taking your income in the most tax efficient way – Taking a salary may be costing you unnecessary tax and NIC. Dividends maybe a more tax efficient way to extract your income. Do you have childcare costs? Take advice to identify the best strategy for you.

It was announced in the 2015 budget that the tax rates on dividend income are to change with effect from 6 April 2016.

The changes are the abolition of the tax credit attached to dividends, the introduction of a £5,000 dividend allowance and new rates of tax of 7.5% tax charge on dividends within the basic rate band; 32.5% on dividends within the higher rate band and 38.1% on dividends within the additional rate band.

Company Car v Private Car – The tax due on company cars is increasing each year and, depending on your circumstances and those of your employees, it may be more tax efficient for the company cars to be owned privately. If you would like me to prepare a cost comparison calculation to identify any potential tax savings, please contact me.

Make the most of tax-free benefits in kind for your staff. Some of the possibilities include:

- ▲ Annual staff functions – up to £150 per head inc VAT (including partners)
- ▲ Mileage payments to employees/ Directors using own car for business mileage – tax free at the following rates: 45p for first 10,000 business miles, 25p thereafter
- ▲ Providing one company mobile phone per employee
- ▲ Additional equipment provided (eg smartphone, computer) to employees where private use is not significant



- ▲ Providing company vans for business travel and ordinary commuting only
- ▲ Work-related training costs
- ▲ Subscriptions to professional bodies
- ▲ Subsidising certain forms of transport to and from work
- ▲ Providing workplace nurseries and crèches or childcare vouchers
- ▲ Paying relocation expenses
- ▲ Making cash awards for contributions to a staff suggestion scheme
- ▲ Long service awards
- ▲ Allowing staff to use pool cars for business purposes
- ▲ Cycle to work scheme to loan tax free bikes or accessories to your employees
- ▲ Overnight allowance for employees on a business trip of £5 per night in the UK, £10 overseas
- ▲ Homeworking allowance - £4 per week to employees who are required by contract to work at home
- ▲ Qualifying Golden handshakes – up to £30,000 tax free for compensation of loss of employment
- ▲ £500 exemption for employer funded occupational health treatments
- ▲ From April 2016 – Exemption for trivial benefits costing £50 or less, subject to an annual cap of £300 per Director or Office Holder (& family).
- ▲ From April 2017 – The exemption for the cost of provision of Employer-arranged pensions advice will increase from £150 to £500.
- ▲ Flat rate expenses for the upkeep of tools and uniform



Other more specialist reliefs

Research & development (R&D) – If your company carries out R&D, check whether you are entitled to claim R&D tax credits as these are an extremely valuable relief. The rate of tax relief for small and medium sized companies is currently 230%. Large companies' above the line relief increased from 10% to 11%. From 1 April 2016, above the line relief for large companies replaces the traditional scheme for large companies which currently stands at 130%.

Patent box – This allows companies to elect to apply a 10% rate of corporation tax to all profits attributable to qualifying patents. The rules surrounding this are complex and patent-specific profits need to be isolated. Please speak to us if you think you could qualify.

Timing of sale of a company or property – The timing of the sale of a business or business property can have a considerable impact on the tax payable. Take advice at an early stage to minimise the tax payable and maximise the timing.

For further information please contact

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