Tax and your business: the year ahead

This 2011/12 guide is intended to help you and your [unincorporated] business tax planning.

Don't miss out on tax planning opportunities. Planning for the year ahead will benefit your business.

Tax is payable by an unincorporated business at income tax rates from 20 to 50 per cent. In addition there is a liability to class 4 National Insurance which is taxed at a rate of 9 per cent on taxable profits from £7,225 to £42,475 and thereafter at a rate of 2 per cent without limit.

THE FAMILY BUSINESS

Involving the family

You can employ family members in your business, provided the salary and other benefits you pay them is commercially justifiable. You can remunerate family members with a salary, and perhaps also with benefits - such as a company car or van. The cost in tax of having a company van that is available for private purposes ranges to a maximum of £1,775 which includes the use of fuel for private purposes. Other options include medical insurance or making payments into a registered pension scheme.

You can also take family members into partnership, thereby gaining more flexibility in profit allocation. In fact, taking your children into partnership and gradually reducing your own involvement can be a very tax efficient way of passing on the family business. Be aware, though, that taking family members into your business may put the family wealth at risk if, for example, the business were to fail. HM Revenue & Customs may challenge excessive remuneration packages or profit shares for family members, so seek our advice before you make any decisions.

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If you operate your business through a limited company, under current tax law you can pass shares on to other family members and thus gradually transfer the business with no immediate tax liability in most cases. However, a tax saving for the donor usually impacts on the recipient and you need to steer clear of the anti-avoidance rules known as the settlements legislation, so again, seek our advice first.

EXPENSES

HMRC has extensive and changing regulations on what expenses can and cannot be claimed against tax. The rules governing whether late night taxis are a taxable benefit or not, for example, run to five pages. Naturally, you will want to make sure your business is claiming all available expenses. Some of these benefits are due to be cut (including late night taxis).

Professional guidance can ensure your business is making the right claims, and at the right time: incurring expenditure just before the end of the accounting year means you can claim any available tax relief a year earlier. For 2011/12 and the previous year, the first £100,000 of most capital expenditure qualifies for a 100% allowance. You may also want to consider investing in energy efficient or environmentally beneficial plant and equipment which will attract 100% allowances, irrespective of cost – more information can be found at www.eca.gov.uk

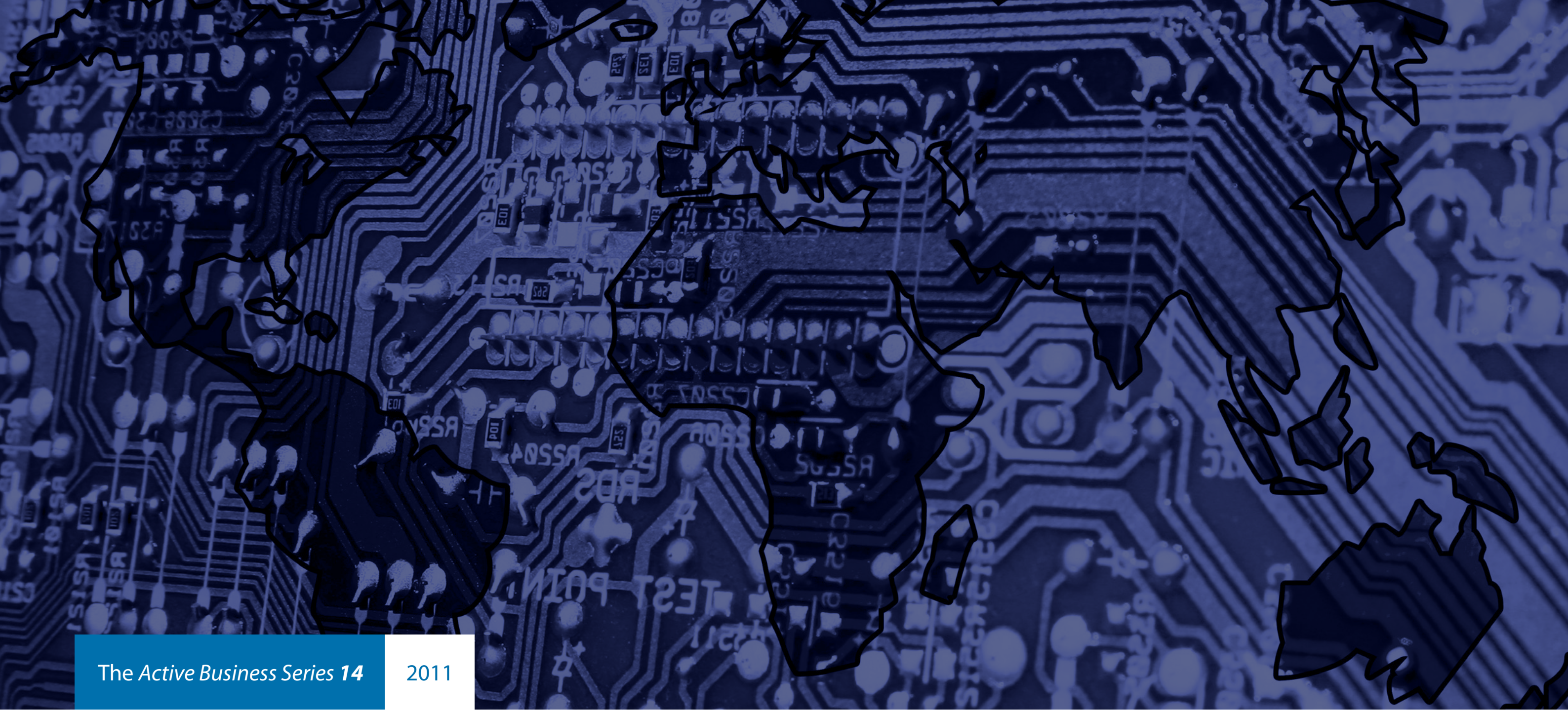
DO YOU HAVE A HOME OFFICE?

The number of people working from home has soared. According to a report by Enterprise Nation, almost half of this country's SMEs are based at a residential address, and 60% of new businesses start out of a home office. Frustratingly, the complex tax rules governing this situation mean few are receiving the full benefit. Yet if you arrange your business affairs in a clear and demonstrable way, you can claim a number of expenses. Potentially, depending on usage, area and working time, you can claim an apportionment of both fixed and running costs. Utility bills, mortgage interest (or rent), water rates and general repairs may all be eligible, as is telephone line rental and cleaning. HMRC officers are now instructed to 'accept a claim on any reasonable basis.' Naturally, any such claim should be diligently prepared. If you are working from home and qualify, please talk to us. You will also need to consider whether your business use of home breaches planning restrictions, and whether business rates may be due on the property.

REWARDING STAFF

There are ways of rewarding staff that can be tax efficient for both your business and your employees. For example, providing childcare vouchers of up to £55 per week to staff as part of their salary package is tax free and attracts no National Insurance Contributions, saving both your business and your employees money. This particular relief is, from 6 April 2011, restricted to £28 a week for new participants paying 40% tax, and to £22 for new participants paying 50% tax.

Do also consider whether some staff might be provided with a company car. Low emission models can attract 100% allowances when the business purchases them brand new, and can produce a very low taxable benefit in kind for the staff concerned. Do ask us for more details of how to implement these ideas, or for alternative suggestions.



THE TAX PENALTY REGIME

Penalties for inaccuracies in tax returns, late filing of returns, late payment of tax and failing to register for certain taxes are all being modernised. Individuals and business owners now face up to 100% penalty for deliberately underpaying tax and taking steps to conceal this, and even higher penalties if the matter relates to non UK income or assets. Even an honest mistake may be regarded as "careless" and attract a penalty equal to 30% of the tax.

HMRC also has wide ranging legal powers, including rights of entry for all business premises (including home offices), whether announced or not, and they can also demand the production of documents by any person involved in the supply of goods and services. Although businesses subject to compliance checks are selected on the basis of risk, it is essential that your records are adequate if you are going to satisfy a tax inspection; if you take reasonable care to comply with the law you will not be penalised. If you are unsure if your business records will stand up to scrutiny, or would like more advice on what "Take care to avoid a penalty" means for you, do seek our advice. Employers should be aware that there is now a penalty for failure to pay over PAYE tax by the deadline each month.

INCORPORATION

Tax and the limited company

If the limitation of liability is an important consideration, then a limited company may be the right solution - but do bear in mind that banks and other creditors often require personal guarantees from directors for company borrowings, so the owners or directors of the business may in fact bear the liabilities of the business out of their personal assets.

Trading through a limited company can be an effective way of sheltering profits as the rates of corporation tax on profits are generally lower than those applying to unincorporated businesses. Although profits paid out in the form of salaries, bonuses, or dividends will normally be taxable at top rates (with quite punitive amount of National Insurance Contributions in addition), profits retained in the company will be taxed in 2011/12 at 20%. The tax rate increases significantly when taxable profits exceed £300,000.

Retained profits can be used to buy equipment or to provide for pensions - both of which are eligible for tax relief.

MAKING THE MOST OUT OF LOSSES

Even a trading loss presents opportunities. The ability to carry tax losses back or forward requires a planning approach that takes into consideration a number of factors, including your personal tax situation and the circumstances of your business. Special relief is available for businesses that incur losses in the first four years of trading.

AREAS WHERE WE CAN HELP

- Managing debt and cash flow
- Dealing with administrators or liquidators
- Planning your business start-up
- Your options for finance
- Finding investors
- Putting you in touch with patent and intellectual property law specialists
- Helping you to comply with government regulations and avoid fines, surcharges, penalties and interest
- Timing capital and revenue expenditure to maximum tax advantage
- Improving your invoicing and debt recovery systems
- Involving family members in the business
- Improving profitability
- Protecting your business from financial disaster
- Selling your business and grooming your business for sale,
- Valuing your business
- Minimising employer and employee NIC costs
- Minimising tax costs, enabling you to keep more of the profit you earn
- Identifying and valuing unpaid bills and unbilled work at the year end
- Preparing yourself and your business for your exit, succession or retirement
- Changes in your business and in your personal life