CORPORATION TAX PLANNING

Every month, Ainsley Gill, BA (Hons) FCA, will be sharing some useful financial facts and tips especially for Bexhillian readers. This month the focus is on Corporation Tax Planning.

Tax is a significant cost to profitable businesses. It is therefore worthwhile considering how to minimise the 'hit' of tax in all its forms.

Every transaction has an impact on your tax bill so should be considered routinely. At mcphersons, we recommend that businesses undertake a review prior to year end in order to identify any tax-saving opportunities. A set of reliable management accounts will greatly assist with this process.

Depending on the specifics of your business, this review will investigate some or all of the following:

Deferring income or profits

If you delay a profitable transaction from the last month of one accounts period to the first month of the next, the corporation tax will be payable one year later. This is often useful when you are crossing the threshold between small and large company tax rates. It is also relevant if the tax rates in the following year are due to fall.

You may wish to consider selling your goods on consignment. In short, this means you can place your product into a retailer at no financial risk to them – they only pay for what they sell, and no tax is payable by you until they sell the goods (and pay you).

For seasonal businesses, e.g. tourism, changing your year end may be appropriate. E.g. for a hotel that makes most of its profit in the summer months, it may be worth changing the year end from April to July. This would split the most profitable months between two accounting years.

Bringing forward expenses

The more expenses you have, the less profit you have to pay tax on. Therefore, if you bring forward some expenses into the current tax year, that will help. For example, you could:

- Make early bonus payments
- Make provisions against slow moving stock or bad debts;
- Make additional pension fund payments;
- Start a new business that will make a loss in its first year;
- Increase 'discretionary' expenditure (advertising, building maintenance, donations to charities).

Investigate Capital Allowances

If you are planning to purchase fixed assets that will generate an allowance, it may be beneficial to do this in the current tax year. Alternatively, if you have a property to sell that will generate a loss, this will also reduce your tax liability.

The area of Capital Allowances is complex and you should seek advice before taking this route.

Other areas to consider

We can also advise whether there are any other areas you should investigate such as:

- Capital Gains;
- VAT Planning;
- Research & Development Relief;
- Green Investment;
- Income from Property;
- Use of Trading Losses;
- Taking advantage of small companies tax rate.

Need more help?

This feature aims to give some informal hints and tips. Mcphersons are offering businesses free advice so get in touch now to arrange your meeting.

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