# Top 10 Tax Saving Tips for Business Owners

6th November 2023

Charnwood
for Solicitors

# About us

Formed in 2004

27 staff

Act for around 40 solicitor businesses

Paula Wheatley

# Disclaimer

Based on current tax legislation

Autumn Statement 22nd November 2023

May affect some items mentioned today

# Limited company Vs Self employed

The tax savings have reduced

Only real win now is if you make large profits but don't need to draw it all

But….Limited companies have limited liability status

# 1. Pensions

For Limited companies

- Make an employer pension contribution
- No gross up
- Corporation tax relief (19% to 25%)
- Not restricted to net relevant earnings as employer contribution
- Maximum £60,000 per annum
- Contribute more if unused earlier years
- Gets cash out of company without incurring a personal tax charge

# Example – assumed all at 25%

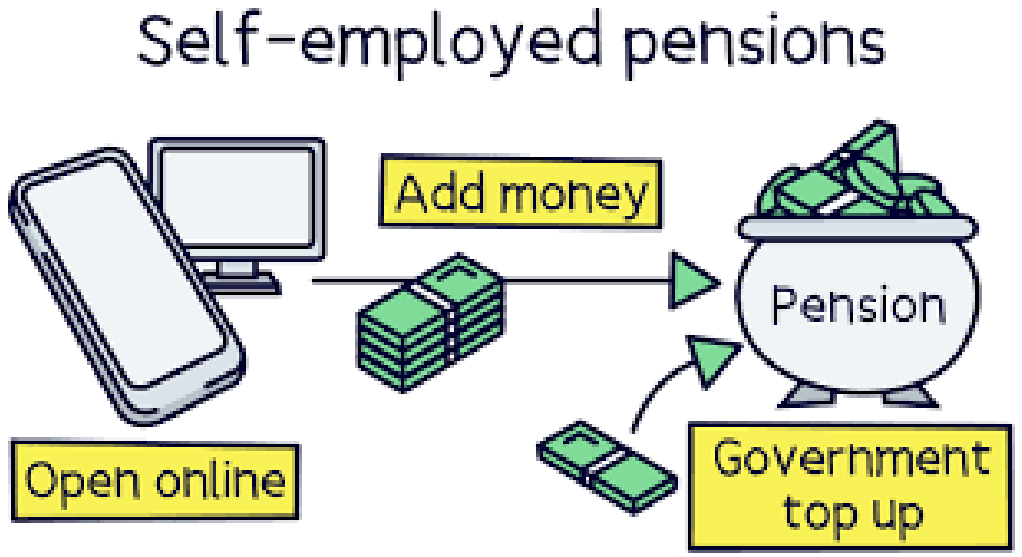
- Gets £60,000 of cash out of the company without you paying dividend tax on it!
- Saves £15,000 in Corporation Tax

| | With pension contribution | Without pension contribution |
|---|---|---|
| Profit | 360,000 | 360,000 |
| Pension contribution | 60,000 | 0 |
| Taxable profit | 300,000 | 360,000 |
| Tax at 25% | 75,000 | 90,000 |

# Pensions – self employed

For the self employed

- Amount contributed in the same tax year based on net relevant earnings
- Grossed up (you put in 80% they put in 20%)
- Extends basic rate band so more tax at 20%
- Can also save loss of personal allowance
- Maximum £60,000 per annum
- Contribute more if unused earlier years
- Tapered if income over £260,000



# Example

| | With pension contribution | Without pension contribution |
|---|---|---|
| Profit | 100,000 | 100,000 |
| Pension contribution | 25,000 | 0 |
| Grossed up value 25000 x 100/80 | 31,250 | 0 |

| Tax payable | With pension contribution |
|---|---|
| 12,570 | 0 |
| 37,700 + 31,250 @ 20% | 13,790 |
| 18,480 @ 40% | 7,392 |
| Total | 21,182 |

| Tax payable | Without pension contribution |
|---|---|
| 12,570 | 0 |
| 37,700 @ 20% | 7,540 |
| 49,730 @ 40% | 19,892 |
| Total | 27,432 |

£6,250 tax saved and £31,250 into pension for your retirement!

# 2. Electric cars

**Aimed at companies**

**Self employed - drive any vehicle and claim mileage or make a PU adj**

**100% FYA on brand new**

**100% FYA qualifying expenditure to 31.03.25 (charging points)**

**Corporation tax relief (19% to 25%)**

**2% BIK (increasing by 1% annually to 5%)**

**Personal cost on average £250 a year**

**Creates a greener business image and a great talking point**

**£0 BIK on electric charging for all employees**

**Excellent perk for staff with very little cost to them**

Salary sacrifice possible where it isn't on non-electric

# Example

| | Diesel | 100% electric |
|---|---|---|
| Market value | 50,000 | 50,000 |
| BIK tax rate | 35% | 2% |
| BIK taxed on personally | £17,500 | £1,000 |
| Personal tax if all BRB | 20% | 20% |
| Tax due personally | £3,500 | £200 |
| Remaining scope for BR dividends | 32,770 | 49,270 |

# 3. Spouses and children

Self employed –

- Pay salaries to spouse/children
- Reduces profit
- Less tax on you

Limited companies –

- Pay salaries to spouse/children
- Reduce profit and CT
- Extracts tax free cash
- Shareholders (IF SOLICITORS!)

# 4. Interest on Directors loans

£1,000 interest allowance

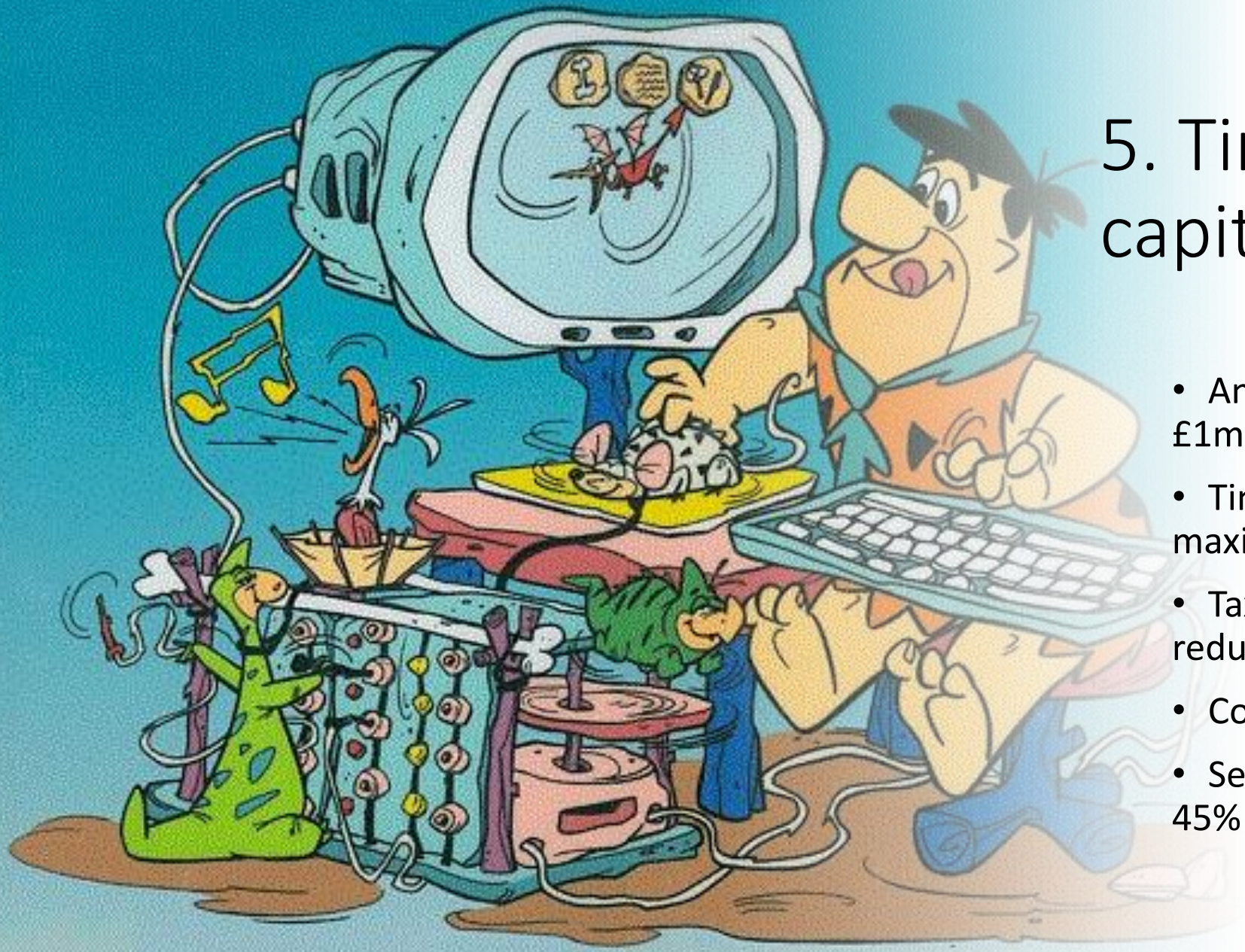
£5,000 0% starting band

Opportunity to charge interest and extract tax free

Swap taxed dividends for tax free interest

Only works if large loan account owed (approx. £40k +)

Must complete form CT61



# 5. Timing of capital purchases

- Annual investment allowance £1m!
- Time close to year end to maximise cash flow
- Tax relief for self employed too, reduces profits
- Companies save 19% to 25%
- Self employed between 20% and 45%

# 6. Trivial benefits

- For employees
- £50 or less (including VAT)
- Not cash or a cash voucher
- Gift cards ok if not convertible to cash
- Isn't a reward for work or performance
- Isn't part of contract
- Directors: maximum £300 per annum

# 7. Rental income splits

- One spouse high income, one spouse low income
- Basic rate band of low income spouse being wasted
- Change ownership weighting to low income spouse
- Taxed at a lower rate
- Property must be owned as tenants in common
- Beware: also applies to capital
- Beware: Proof needed with Form 17 to HMRC

# 8. Marriage allowance

- One spouse not making use of tax free personal allowance
- Transfer £1,260 to spouse
- Reduces tax by £252
- Not available for higher rate tax payers

# 9. EIS/VCTs

| Name | | Maximum annual investment you can claim relief on | % of investment claimed as income tax relief | Capital gains tax reliefs | Gains exempt from Capital Gains Tax when you sell shares |
|---|---|---|---|---|---|
| EIS | Enterprise Investment Scheme | £1 million<br>£2 million if at least £1 million of that is invested in knowledge-intensive companies | 30% | Deferral | Yes if you received Income Tax relief |
| SEIS | Seed Enterprise Investment Scheme | £200,000 | 50% (capped at £100,000) | Exempt from tax | Yes if you received Income Tax relief |
| SITR | Social Investment Tax Relief | £1 million | 30% | Deferral | Yes if you received Income Tax relief |
| VCT | Venture Capital Trust | £200,000 | 30% | N/A | Yes |

# 10. Have a good accountant

- These tax tips should be considered automatically by your accountant
- This is all day to day activity for us and what you pay for
- Is your accountant talking to you about any of these things?
- If not, why not?

# Thank you for listening

Thank you all for taking the time to listen today

Slides will be sent around

paulaw@charnwoodaccountants.co.uk

01509 277478

https://charnwoodforsolicitors.co.uk/