

2015 / 2016

TAX SAVING TOOLS FOR LIMITED COMPANIES

Notes

- 1 If you are a higher rate tax payer as a sole trader / partnership, it may be more beneficial to operate via a Limited Company or Limited Liability Partnership.
- 2 If you purchase goodwill in a business, you will only get tax relief if you operate via a limited company, and not if you are a sole trader or partnership
- 3 Extracting money from a limited company can be done tax efficiently by taking a mix of low salary and dividend.
- 4 Dividends drawn should be recorded with board minutes to ensure they are not reclassified as loans or salary by HMRC.
- 5 Limited Company profits are taxed at 20% for the first £300,000 after which it goes up to 21.25 % up to £1,500,000. These limits are divided by the number of companies under your common control.
- 6 It may be advantageous to hold property used in a business personally, rather than in your company.
- 7 You may be able to extract money from your company by paying yourself market rate rent, royalties or interest.
- 8 Selling a capital asset to your company will entitle you to use your annual capital gains tax exemption.
- 9 If your company provides proper personal services to only a few clients, ensure that you do not fall within the rules of IR35. If you do, the company will be liable to paye and nic on 95% of the earning of the Company. Make sure you take the necessary advice and steps relating to your contracts.
- 10 Shortening or lengthening your accounting period may result in a reduction in your tax bill in a particular year.

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TAX SAVING TOOLS **EMPLOYEES & DIRECTORS OF** **A LIMITED COMPANY**

Notes

- 1 If you have employees who have worked for the company for over 20 years, a tax free long service award of £50 for every year of service may be awarded to them provided the gift is not in the form of cash or vouchers.
- 2 If the company operates a suggestion scheme, amount of up to £5,000 may be paid tax free to the employees if the suggestions are outside the scope of their normal duties.
- 3 Where the company employs self-employed persons, ensure that they fall under this category. If HMRC is not satisfied that they are self-employed persons, they can go back to all the years that they were regarded as self employed and reclassify them as employees, in which case it will cost the company a lot money in terms of back paye/nic and penalties and interest.
- 4 Paye and nic payments of less than £1,500 per month can be paid on a quarterly basis by agreement with HMRC.
- 5 New employees should provide a P45 or otherwise sign a form P46 for them to get the correct allowances and deductions.
Students who only work during the holidays should sign a form P38 if they wish to receive their pay free of any tax deduction, if they have no other employment, other than the holiday work and their income will not exceed £8,105 in the tax year.
- 6 If a new employee needs to move to take up the position, removal expenses for the first £8,000 per move is tax free but receipts will have to be provided.
- 7 Yearly or half yearly rather than monthly bonuses paid may save on Employees National Insurance (excluding Directors).
- 8 Termination of an employment contract may result in termination payment being made tax free for up to £30,000.
- 9 Contributions to a registered company pension scheme by the company may result in a saving of national insurance contribution by both the Company and yourself, rather than paying it out of your net income.

10 Your employees can claim tax relief on certain payments such as payment to professional bodies as long as these bodies are approved by HMRC.

11 Where the company provides you with a car, you may be taxed on a benefit in kind. If you own the car personally, you can claim mileage allowance for the business trips at the HMRC approved rates of 45p or 25p per mile.

Where the employee receives less than the approved mileage rates he may claim tax relief on the difference.

Where employees travel in a group on company business, an extra 5p per mile can be claimed for each extra employee.

12 Benefits received from the company by employees or Directors have to be reported on forms P11Ds or Forms P9D., as failure to do so will result in penalties by HMRC.

But, applying for a dispensation from HMRC will exempt you from reporting certain expenses on the form P11D.

13 Small gifts to employees provided they are not cash payments may be tax free as long as they are not reward for employment.

14 Providing employees with a bus service to come to work is an allowable expense

15 Bicycles and the related safety accessories may also be provided to employees to cycle to work and for other business related trips and the employee will not be taxed on its use as long as the Company keeps ownership of the bicycle.

16 Eye tests and glasses needed to cope with looking at computer screens is also tax free for the employee.

Similarly, medical check ups annually for employees is tax allowable for the company and not taxed as a benefit on the employee.

17 Similarly, the provision of training or gym membership are also tax allowable for the Company and not as a benefit on the employee, where they are commonly available to all the staff of the Company.

17 Where an employee has young children still at school, part of their salary can be paid as child care vouchers up to £55 per week tax free, thereby saving tax and national insurance for both employer and employee, provided the offer is made to all employees.

18 The company can also provide one mobile telephone per employee tax free and provided the contract is in the company name and the handset belongs to the company, there is no benefit assessed on the employee.

19 The Company can also spend up to £150 per employee per year tax free on an annual party or other event.

20 You can lend up to £5,000 to your employees, per employee, tax free without them being assessed to a benefit in kind

Disclaimer

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We do not provide any warranty that the information is reliable, complete and up to date. As such professional advice must be taken before acting or refraining from acting on any of the above.

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