**Tax Strategies > Owner Managed Businesses**

**Tax Year:** 2013/14

Select the model strategy most appropriate to your specific circumstances:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Strategy** | **Business Profits** | | **Personal Income Requirements** | **Spouse/Partner Involved in Business?** |
| [OMB Alpha](http://www.whitingandpartners.co.uk/OMB%20Strategies%202013-14%20Alpha.pdf) | < £15k | | No need to restrict | x |
| [OMB Beta](http://www.whitingandpartners.co.uk/OMB%20Strategies%202013-14%20Beta.pdf) | < £30k | | No need to restrict | ✓ |
| [OMB Gamma](http://www.whitingandpartners.co.uk/OMB%20Strategies%202013-14%20Gamma.pdf) | £15k - £45k | | No need to restrict | x |
| [OMB Delta](http://www.whitingandpartners.co.uk/OMB%20Strategies%202013-14%20Delta.pdf) | £30k - £90k | | No need to restrict | ✓ |
| [OMB Epsilon](http://www.whitingandpartners.co.uk/OMB%20Strategies%202013-14%20Epsilon.pdf) | > £45k | | No need to restrict | x |
| [OMB Zeta](http://www.whitingandpartners.co.uk/OMB%20Strategies%202013-14%20Zeta.pdf) | > £90k | | No need to restrict | ✓ |
| [OMB Eta](http://www.whitingandpartners.co.uk/OMB%20Strategies%202013-14%20Eta.pdf) | > £45k | | Keep below 40% personal tax | x |
| [OMB Theta](http://www.whitingandpartners.co.uk/OMB%20Strategies%202013-14%20Theta.pdf) | > £90k | | Keep below 40% personal tax | ✓ |
| [OMB Iota](http://www.whitingandpartners.co.uk/OMB%20Strategies%202013-14%20Iota.pdf) | > £45k | | Keep below 60% personal tax | x |
| [OMB Kappa](http://www.whitingandpartners.co.uk/OMB%20Strategies%202013-14%20Kappa.pdf) | > £90k | Keep below 60% personal tax | | ✓ | |
| [OMB Lambda](http://www.whitingandpartners.co.uk/OMB%20Strategies%202013-14%20Lambda.pdf) | > £45k | Keep below 45% personal tax | | x | |
| [OMB Mu](http://www.whitingandpartners.co.uk/OMB%20Strategies%202013-14%20Mu.pdf) | > £90k | Keep below 45% personal tax | | ✓ | |

**Tax Strategies > Owner Managed Businesses > Alpha**

**Tax Year:** 2013/14

**Tax Decision Points Suitable For:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Strategy** | **Business Profits** | **Personal Income Requirements Now** | **Spouse Involved in Business?** |
| OMB Alpha | < £15k | Up to £xxx per month | x |

**Tax Minimisation**

* 1. Structure business as a sole trader/partnership/limited company
  2. Involve spouse as a director and shareholder, owning a % stake commensurate with their

involvement in the business.

* 1. Consider structuring shares as ‘alphabet shares’, to give added tax flexibility to future

dividend distributions.

* 1. Capture and maximise all expenses that are valid business tax deductions, inc:
* Use of Home as Office/Storage:
  + Employed: <http://www.hmrc.gov.uk/manuals/eimanual/EIM32815.htm>
  + Self Employed: <http://www.hmrc.gov.uk/manuals/bimmanual/BIM47800.htm>
* Travel (actual or scale rate)
* Subsistence (actual or scale rate). Consider special rules for overseas travel:
  + Scale rates: <http://www.hmrc.gov.uk/employers/wwsr-bench-2012.pdf>
  + Incidental overnight expenses: <http://www.hmrc.gov.uk/paye/exb/a-z/i/incidentals.htm>
  1. Bring forward future discretionary minor spends to before year end, inc:
* Repairs/renewals
* Advertising/marketing
* Product development
* Training
* Stationery/office supplies
* Doubtful debts
* Bonuses
  1. Where able, and commercially acceptable, consider deferring revenue until after year

end.

* 1. Consider pre year end major discretionary spends:
* Capital items (100% relief in year of purchase on up to £250k Plant & Equipment spend)
* Employer pension contributions (up to £50k per employee pa, plus any unused brought forward relief from previous 3 tax years).
  1. Structure payment of non-taxable benefits in kind (absolutely or as salary sacrifice

arrangements) through the business, inc:

* Life assurance (death in service)
* Childcare costs/vouchers (potentially up to £55 pw)
* Christmas/annual party
* Mobile phone contract
* Interest free loans (up to £5k)
  1. Optimise remuneration structure:
* Pay ‘minimum’ salary to yourself, between the Lower Earnings Limit (£5,668 pa) and the Secondary Threshold (£7,696 pa), to pay Nil PAYE or NIC whilst still earning a state pension credit for the year. Say £7,600.
* Assuming no other personal taxable income, you to extract net cash dividends up to £30,465 (£33,850 gross), effectively tax free.
* Extra income required to be taken as further dividends (note: income tax at approximately 25% of this amount extract will become due personally). Try to keep total personal gross income below the £100k threshold above which the marginal income tax rate is temporarily 60%. So total dividends should not exceed £83,160 per individual.
* Income shifting:
  + Assuming justified by involvement in business, pay ‘minimum’ salary to spouse, between the Lower Earnings Limit (£5,668 pa) and the Secondary Threshold (£7,696 pa), to pay Nil PAYE or NIC whilst still earning a state pension credit for the year. Say £7,600.
  + Assuming spouse has no other personal taxable income, and justified by involvement in business, spouse to extract net cash dividends up to £30,465 (£33,850 gross), effectively tax free.
  + Assuming no other personal taxable income, and justified by involvement in business, pay ‘minimum’ salary to other family members (children ?), between the Lower Earnings Limit (£5,668 pa) and the Secondary Threshold (£7,696 pa), to pay Nil PAYE or NIC whilst still earning a state pension credit for the year. Say £7,600.
* Profit retention, to avoid double tax charge (company & personal):
  + If business exit (liquidation or sale) imminent, consider leaving profits in business, to extract more tax efficiently as a capital transaction upon exit.
  + Retain balance of profits in company until personal tax status improves.
  1. Vehicle:
* Calculate whether it is more tax efficient or own and expense a vehicle within or outside

of the business.

* Consider whether a tax efficient vehicle (low emission car or twin cab pick-up) is a better solution.
  1. Consider creating a contractual or constructive obligation for bonuses paid after the year

end (within 9 months of year end) to be eligible to be carried back for tax deduction

purposes.

* 1. Where a high percentage of service income is derived from 1 client, structure contracts and

work practices to stay outside of IR35 tax rules.

* 1. Prepare accounts using accounting policies that delay taxable profit recognition, inc:
* Revenue recognition
* Long term contracts
* Intangible asset amortisation
* Stock
* Doubtful debts
* Finance leases and hire purchase
* Provisions
  1. Structure arrangements, remuneration and contracts so as able to claim 225% R&D tax relief

on maximum eligible product or service development costs.

* 1. For B2C businesses, consider avoiding or delaying compulsory VAT registration.
  2. For B2B businesses, consider voluntarily VAT registering ASAP, to recover VAT on costs.
  3. If turnover is < £150k, consider whether a ‘VAT Profit’ could be created by completing VAT

returns using the VAT Flat Rate Scheme.

* 1. If profits are of sufficient size and you have an appetite for the associated risks, consider

purchasing a marketed tax scheme.

**Tax Administration**

2.1 Company self-assessment tax return needs completing and submitting to HMRC

electronically by 12 months after the year end. Best for us to undertake this work between year end + 1 month and year end + 5 months, giving you plenty of notice of corporation tax amount due.

* 1. If no extra income or capital gains tax is due, keep out of personally registering for self

-assessment tax system as long as possible.

* 1. If registered, personal self-assessment tax return needs completing and submitting to HMRC

by:

* 31st October following 5th April following year end (if paper version)
* 31st January following 5th April following year end (if electronic version)

Best for us to undertake this work between 5th April and 30 September, by electronic means, giving you plenty of notice of income tax amount due the following 31st January.

* 1. Consider insuring against the risk of a company & personal tax enquiry by taking out fee

protection insurance before return is submitted.

**Tax Payments**

* 1. Corporation tax is due 9 months and 1 day after each 12 month trading period, so consider

saving this money in a separate bank deposit account as profits are earned throughout the

year.

3.2 Choose year end carefully, so as to maximise time between earning profits and paying

tax.

3.3 If funding tax payment(s) is likely to be delayed, consider:

* Not submitting company tax return until just before the 12 month deadline, so that HMRC collection procedures do not know how much is due within the post tax due date 3 month ‘window’.
* Making a ‘time to pay’ payment plan arrangement with HMRC, before this tax is overdue.

3.4 Where predicted VAT exclusive turnover for the next 12 months is < £1.35m, and your trade

debtors exceed trade creditors, consider deferring payment of VAT to HMRC by opting to

complete VAT Returns under the cash accounting scheme.

3.5 Consider giving HMRC a direct debit authority to collect VAT, to obtain an extra 3 bank

working days credit.

**Disclaimer**

The above tax strategy advice is purely generic in nature. It is not intended to be considered as advice in relation to your particular circumstances, and should not in any circumstances be relied upon nor should you take action based solely on the free advice we have provided. If you would like us to review your individual circumstances and provide you with our professional advice you should contact our office to arrange a full review with one of our staff.