Switch Accounting

Year End Tax Planning 2016-17

With the end of the tax year firmly on the horizon (31st March / 5th April), now is a good time for us to start looking at your 2016-17 tax planning.
From discussions with clients, I find a good starting point is to decide <u>what</u> the accounts are likely to be used for in the next 12 months. If you are looking to secure investment or borrow money, then you will most likely want both your business and personal accounts to show high earnings through:

- Bringing forward all work and invoicing
- Delaying any major expenditure
- Taking maximum drawings from the business

With the reverse being true if you are looking to reduce your eventual tax liabilities.
Here is my top ten list of things for us to consider:

<u>1). Dividends</u>
The biggest change to the tax system seen this year is that dividends are no longer tax free to basic rate earners:

Dividend	Dividend tax rate 2016/17	Dividend tax rate 2015/16
Basic-rate (income at or below £42,385)	7.5%	0%
Higher-rate (income of £42,386 - £15,000)	32.5%	25%
Additional-rate (income above £150,000)	38.1%	30.56%

Remember that this is the number that lenders will look at when assessing borrowing capacity – especially important to maximise if you are thinking of moving house this year.
It is still our recommendation that each shareholder should seek to maximise the basic rate band - i.e. receive a dividend that takes his or her <u>total income</u> up to the £42,385 threshold.
Remember that as well as spouses, adult children can be shareholders – and this often

provides parents looking to support their children (either through University or onto the housing ladder) with a tax efficient way of doing so.

2). Balance your director's loan account to zero

Where a debit balance remains in the director's loan account - for example where you have temporarily taken more cash out of your business than profits allow, then a 25% corporation tax surcharge applies on the balance. You can temporarily put this money back into the business account, and then take it back out again next year.

3). Reconcile the bank

Ensure that on your year-end date you have sufficient money in your business bank account to meet all your liabilities (trade creditors, VAT, corporation tax, accruals).

4). Pension contributions

Payments into pension schemes remain incredibly tax efficient; a higher rate taxpayer can turn every £6,000 they put into a pension into £10,000 before the 5th April.
(Contributions capped at £40,000 per person this year).

5). Expense claims

Now would be a good time to go through your wallet and find all those receipts and reimburse yourself for any business items and services that you have had to pay for personally, during the year. The most frequently forgotten items are:

- Business travel costs
- Business mileage at 45p per mile (first 10,000 miles), 25p thereafter
- Subsistence (the cost of a food and beverages incurred whilst undertaking business travel).
- Mobile phone
- £4 per week if you use any part of your home in your business.

6). Invest in new equipment

The first £500k spent this year on assets still attract 100% capital allowances, meaning the full cost can be used to offset your taxable profit.
Examples include:

- Commercial vehicles
- Cars with a CO_2 rating of less than 75g/km
- IT equipment (computers, printers, smart phones)
- Plant and machinery / Fixtures and fittings

Purchase on finance (hire purchase) rather than leasing, so you get the tax break on the full list price of the asset - as well as the VAT back.

7). Claim Married Couple's Allowance

If your spouse is expected to earn less than £11,000 then use this online link to have their tax-free allowance transferred to you:
https://www.gov.uk/marriage-allowance

8). Child Benefit and Childcare Costs

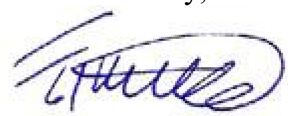
If your income is between £50,000 and £60,000 and you receive child benefit, then you should consider deferring some of your income either to your partner (or into next year) so that you do not lose entitlement.

Anyone with younger children requiring care can obtain childcare vouchers - or credit to the value of £3,000, through their business as an allowable expense.

9). Capital gains allowance
If you have any shares to sell, you can use this year’s £11,100 tax-free allowance before 5th April.

10). Enterprise Investment Schemes (EIS)
For clients with large personal tax bills (and a penchant for risk), then investing money in start-up firms that hold EIS approval can open up some interesting tax saving opportunities. This video provides a neat overview of the mechanics of the scheme:
https://www.youtube.com/watch?v=_InNFOSlWZE

My Switch Accounting colleagues and I would be pleased to hear from you if you wanted to discuss any of these ideas further
Yours Sincerely,



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