CORRIGAN & CO.
"it's not what you earn, it's what you keep"

Every business wants to have a successful trading year. Yet, what can often be forgotten is the associated tax bill, which can lag for a number of months after the year end. While there are many steps businesses can take to reduce the tax bill, the most important step is to consider this BEFORE the company year-end.

The following sets out some of the key areas for consideration.

PROFIT & LOSS

There are several areas to consider from the profit and loss side of the accounts which can aid in tax planning. Management should review the following areas ahead of the year end and consider if there are opportunities for tax planning.

Income

- Can sales be deferred to the following accounting period?
- Have any deposits been received for work not yet done?
- Are sales being recognised in the accounts at the correct time?
- If goods are sold on sale or return basis, then when are sales being recognised?
- If on contract basis when is the sale being recognised?
- Should the accounting year-end be changed to reflect seasonality of the business, which may in turn help with cashflow?

Expenditure

- Consider bringing forward expenses into the year, such as repairs to buildings and offices
- Have all 'accruals' been accounted for such as light and heat, phone, rates and holiday pay etc?
- Are there any plans for staff bonuses? (Bonuses can be 'accrued' if it is planned to pay them within 9 months of the year end)
- Redundancy - it is possible to obtain tax deduction for costs not yet incurred? (Note: the redundancy notice should be issued prior to the year-end
- It might be possible to enhance the pension contributions made to the directors pension scheme

Provisions

- Bad Debts - The debtor's ledger should be reviewed regularly to ensure that any potential bad debts are provided for. The provisions set should be against specific bad debt and will be treated as a tax deductible expense in the year. There is also the added benefit of reclaiming VAT back on any debts greater than 6 months.
- Stock - The stock listing should be reviewed for slow moving, damaged or obsolete stock. This provision should be specific to each stock item and any provision set will be treated as a tax deductible expense in the year. The company can also provide against the value of the stock held, if the company believes the value of the stock held is higher than the market value of the stock, then this stock item can be written down to deemed market value and the decrease will be treated as a tax deductible expense.
- Warranty/snagging provision - it is always worth noting the level of warranty offered on goods sold or rework on construction projects. How long does the warranty last and how often are there reworks to products which are direct costs to the company? What would this generally cost the company?

RESEARCH & DEVELOPMENT

There are generous tax reliefs available to companies for R&D expenditure, with the costs associated with R&D incurred in a business being enhanced by 130%.

R&D can be divided into 2 parts:

1. Product Development - where a company has invested time and materials in the development of a new or significantly improved product
2. Process Development - where a company has adopted a new or improved approach to how the company carries out its operations (Process Development is an area that is very often overlooked - whereby there are internal improvements made which may reduce waste and inefficiency, such as how materials are handled and processed)

Any potential problem where a solution is found may qualify for R&D. Even if a company is not making profits, it might be eligible for R&D credits and could claim a cash receipt. **Northern Ireland companies have the lowest rate of R&D claims in UK and are missing out on a very valuable source of cash flow.**

CAPITAL ALLOWANCES

A company should review its requirement for capital expenditure ahead of its year end.

- Companies are entitled to 100% tax relief on qualifying assets on the first £200k spend, any spend above the initial £200k will then get tax relief at 18% annually. Were possible, it is critical to plan purchases to maximise 100% allowance.

- Consideration should be given to the condition of lorries and vans and whether they need replaced and updated
- Directors Current Account - When the company makes loans to its directors then this loan is subject to S.455 tax charge on the amount due by the directors to the company. This loan is subject to tax at a rate of 32.5% on overdrawn balance, unless this is repaid or cleared within 9 months of the year end.
- This loan account can be cleared in a number of ways:
    - The company can declare dividends to clear this, but this will have an impact on the personal tax of the directors
    - Business expenses paid personally by the directors on behalf of the company, such as mileage claims. These claims should be made before the year end as they help both the company tax due to additional expense and also the final position of the directors current account
    - The directors can introduce a personal assets to the company such as cash, personal plant, tools, computers or even land and buildings.

SUMMARY

A key area to remember when considering any tax planning is that any decision being made should be done for 'sound commercial reasoning' rather than simply reducing the final tax liability.

Always be aware of how the business is performing and have an estimated tax figure in mind with adequate funds set aside for payment.