Corporation tax

The main rate of corporation tax is 20% until 31 March 2017. From 1 April this rate reduces to 19%.

Corporation tax self-assessment requires companies to work out their own tax liability as part of their return and account for the 'self-assessed' liability to corporation tax.

Planning

Taxable profits are typically reduced by employers making pension contributions. Self-invested personal pensions (SIPPs) are popular with many company owner-directors.

Another tax reduction strategy is to bring qualifying capital expenditure forward to take advantage of the 100% annual investment allowance. The allowance is currently available on qualifying expenditure of up to £200,000.

Business deductions

Business owners are entitled to claim deductions from income for costs which are incurred wholly and exclusively in running the business.

Determining how this rule applies in practice can be a challenge. In most circumstances, a deduction may not be claimed in respect of depreciation, but deductions in the form of capital allowances are available for some expenditure on qualifying capital expenditure.

Planning

- Have you recorded all your costs?
- Directors' bonuses can be claimed as an in-year tax deductible cost so long as they are paid within 9 months after the company year-end. Pension contributions must be paid before the year-end to get tax relief in the accounting period.
- Salaries can be made to family members as long as they are justifiable and at commercial rates, along with the employer provided tax-free benefits permitted by HMRC such as the provision of a company mobile for both business and private use.
- Other ways of extracting profits include dividends (but dividends are now subject to the new dividend tax rules) and benefits in kind.

Entrepreneurs' relief

Entrepreneurs' relief provides relief for disposals by smaller business owners. It charges a reduced tax rate of 10% on disposals up to the lifetime limit of £10 million giving rise to a potential tax saving of up to £1 million.

The relief is available on material disposals of business assets which covers businesses operated as a sole trader, partnership or through a limited company.

It may not be available when a company is liquidated if the owner is involved in a similar business after the liquidation. Instead the proceeds of the liquidation may be taxed as income.

Planning

Maximising the sale value and looking carefully at the proposed sale structure helps to ensure the liability to capital taxes is not a penny more than absolutely necessary.

There are a number of planning opportunities in this area but there are also pitfalls if some shareholders do not qualify for this relief.