The Top 10 Tax-Saving Strategies

that your accountant hasn't told you about

Written by

JON DAVIES
ACCOUNTANTS

One of the North West's leading accountants for growing businesses

Would you like to pay LESS TAX?

Most people want to pay less tax, but I'd argue that it is good to pay more tax – it means that you're making bigger profits.

But, as business owners, we want to pay as little tax as legally possible. We want to make sure we claim all of the tax reliefs available to us and plan our affairs to keep that tax bill down.

As an accountant, this is what I help my clients to do and, in this short guide, I'm going to help you do the same. All of my strategies have three things in common:

1. ***They're simple.***
2. ***They're legal.***
3. ***They need a bit of thought and planning.***

What do I mean by simple?

You can do most of these yourself… if you know about them. And they are pretty straightforward… if you know about them. But, they can have a significant effect on your tax bill…if you know about them.

Sometimes, the simple things have the biggest effect. For example, it's only relatively recently that I found out that you can double-click on a word on your computer to highlight the whole word, or triple-click and highlight the entire paragraph.

But over the years, how many seconds, minutes, and hours have I spent dragging my mouse left, right, and centre to try to highlight the correct words or paragraph to copy and paste something? If only somebody told me this years ago!

And the embarrassing thing is that, when I mentioned it to my wife, she said "everyone knows that."

But the point is that I didn't know. And it's the same with some of these tax strategies. I'd expect everyone to know some of them…but very few to know all of them. So there should be something for every business owner.

The second thing is that they are all legal. Someone said to me recently that "To be honest, I don't like to take advantage of tax breaks because you're opening yourself up to investigation.

You might save a few hundred quid but it'll cost you thousands of pounds on an investigation."

Every one of these tax breaks is 100% legal and above board.

They all just use HMRC's guidelines, and some are actively encouraged by HMRC. There are no dodgy offshore transactions or loopholes in contracts here. They're all nice and straightforward and legal.

So, what about the planning? There's only so much that your accountant can do after your year-end has passed. Many of these strategies need to be planned before your year-end. Sitting down before your year-end with your accountant can save you loads more tax.

So, what are the top tax strategies for business owners? Read on and find out all you need to know.

And, if you'd like to talk through any of them, please do give us a ring on **0151 665 0900** or email us at **tax@jondaviesaccountants.co.uk.**

Jon Davies
Founder, Jon Davies Accountants

Strategy 1

Salary & Dividends

Our first strategy for business owners is a really simple one, and it's one that a lot of people will be doing already - but not everyone will be doing correctly.

The first strategy is to make sure you take the money out of your business in the most tax-efficient way possible.

These strategies are mainly aimed at owners of limited companies. And, if you are the owner of a limited company, the way you do this is by paying yourself a small tax-efficient salary and taking the rest of your money as dividends.

WHAT SALARY DO I PAY MYSELF?

What do I mean by a small, tax-efficient salary? Well, you should pay yourself a salary up to the National Insurance threshold. From July 2022, that's £1,048 per month or £12,570 per year.

If you pay yourself up to this threshold, the company will save corporation tax at 19% of the £12,570 but you receive it into your pocket tax-free and National Insurance-free.

Your company will pay some Employers National Insurance but less than the Corporation Tax saved, so you're saving money overall.

If you go above the threshold, your company still gets to save 19% of Corporation Tax but you personally pay National Insurance at 13.25% and the company pays National Insurance at 15.05%.

Therefore, you're saving 19% in Corporation Tax, but paying 28.3% in National Insurance…which just doesn't work.

If you pay up to the threshold, the net tax saving is £1,866. (You save £2,388 in Corporation Tax while paying £522 in Employers NI.)

And don't worry – you do still get all your contribution towards your state pension. If you earn more than the lower earnings limit, which is £6,396 per year, you get all of the benefits….but without paying National Insurance.

HOW DO DIVIDENDS WORK?

Any additional money you take out after your salary, you take out as dividends.

Dividends must be taken after accounting for Corporation Tax. So, you can only take dividends up to the level of the profits in your company after tax.

Dividends are a tax-efficient way of taking your money out of the business. You get your first £2,000 of dividends tax-free every year.

As a basic rate taxpayer, you pay tax at 8.75% on dividends.

This rises to 33.75% if you are a higher rate taxpayer, i.e. you earn more than £50,270, and 39.35% if you are an additional rate taxpayer earning over £150,000.

Overall, though, dividends are usually cheaper than salary in tax terms.

So this is how, as a director, you take your money out of the business.

Strategy 2

Keep it in the Family

Did you know you can pay a family member as well as yourself?

The first person you might look to is your partner.

If your husband or wife doesn't work, you might want to pay them the same tax-efficient salary as explained in Strategy 1.

That could save another £1,866 of tax in the business, while they receive the cash tax free.

They should be doing work for that - something you can justify paying them a salary for. For example, it could be helping out on the admin for the business.

CAN I MAKE MY PARTNER A SHAREHOLDER?

The next step would be to make them a shareholder in your business because they can get the annual £2,000 dividend allowance tax-free, and also benefit from the lower tax rates as well.

The rates change slightly every year but, to give you an idea of the effect: if one person solely owns a business that makes £100,000 of profit, they will pay about £31,000 of total tax across all the taxes.

But, if two people own that company jointly, the total tax is around £20,000. That's £11,000 cut off your tax bill, so it's well worth doing.

WHAT ABOUT THE KIDS?

Did you know you can actually pay your children a salary as well?

I was asked a little while ago how old somebody has to be to have a salary and I didn't know the answer. However, I was pretty sure my client who was asking couldn't put their six-month-old baby onto the payroll!

It turns out they could employ a baby in certain professions - things like acting or modelling. However, generally speaking, children have to be aged 13 or above to have a part-time job.

This could work really well if your children are at university and you'd be giving them money anyway. You might want to get them to do some work for you at the weekends or in the summers and pay them a salary to get tax relief in the company.

However, you do need to be careful – to be allowable, the salary should be realistic, not be excessive, and must actually be paid.

You can also give your children shares in your company. If they are under the age of 18 it's actually the parent who gets taxed on dividends so there isn't a benefit. But, if they're over the age of 18, they can benefit from the tax-free allowance and also the lower tax rates.

Strategy 3

Tax-Free Gifts

Tax strategy number three is to be generous and give out lots of presents!

There are three types of gifts you can give:

1. To clients
2. To your staff
3. The best of all - gifts to yourself.

WHAT GIFTS CAN I GIVE TO CLIENTS?

You can give any gifts you want to clients, but you only get tax relief if they meet these criteria:

- The gift cannot be worth more than £50, and there is also a limit of £50 per customer per year.
- The gifts must have your company name on them in a conspicuous way and, unfortunately, they can't include alcohol, food, tobacco, or vouchers.

My clients get something much better than alcohol. They get a brand new Jon Davies pen and a notebook! And it's eligible for tax relief.

WHAT GIFTS CAN I GIVE TO MY TEAM?

For the staff, it's slightly more relaxed than for clients. Again, you can spend up to £50 per staff member on gifts each year.

But, for staff members, it doesn't need to have the company logo on, and the good news is that you can give them food, tobacco, or alcohol.

The only exception is cash or vouchers - these wouldn't be eligible for tax relief.

WHAT GIFTS CAN I GIVE MYSELF?

If you're the Director of a company, you can buy yourself gifts.

The limit on these is basically the same as for staff gifts. Each gift can't be worth more than £50 and can't be cash or vouchers.

But you can spend up to £300 per year on gifts and claim tax relief.

And if you follow Strategy 2 and keep it all in the family, you can do the same for any family members who are employees of your company. So, you can spend up to £300 on each of them as well.

Strategy 4

Entertaining

It's worth noting that client entertaining is not eligible for tax relief, and you can't claim VAT on it either. However, staff entertaining is eligible for tax relief.

How much can you spend on each staff member? You could spend up to £150 per head on staff entertaining and claim the tax and VAT back.

And that £150 can include extras such as taxis to and from the venue, or a hotel bill after the event.

This is an annual limit, and it doesn't have to be spent in one go.

However, each event is assessed individually, and if an event goes over the £150 limit, that event is no longer eligible.

EXAMPLE

If you have one event worth £150 per head, you get tax relief. If you have one event in the year worth £151, the whole event is not eligible for tax relief. It's all or nothing.

If you have more than one event and, for example, the first two events cost £70 each, they're each eligible and use £140 of the limit. If the third event costs more than £10, none of the third event's cost is eligible. The first two are still okay.

ARE THERE ANY OTHER CONDITIONS?

You also need to be aware that everybody needs to be invited to these events to be eligible for tax relief.

Or, at least everybody needs to be invited in sensible groups. So if you're split across different offices or different departments, it could be an event for each office or department.

But you can't just pick and choose your favourites! It has to be all or nothing.

It's worth noting as well that if you are a sole trader or the only owner of a limited company, you can still reward yourself with a Christmas meal. And, because it's £150 per person, you could take your other half and use up to £300.

Strategy 5

Benefits

There are many tax-free benefits you can pay for that get tax relief in the company and no tax on the employee.

These include:

- Medical check-ups
- Annual health assessments
- Mobile phones
- Relocation expenses if you need to move home
- Providing workplace nurseries and crèches
- Sporting and recreational facilities
- Car parking
- Subsidising bus or rail fares
- Providing company bikes
- £150 per person per year for staff parties

And Relevant Life Insurance. Now, Relevant Life Insurance is a defined term, not life insurance that you think is relevant to you!

It is a type of insurance for directors and owners of a business that can get tax relief. So it can be an excellent way of rewarding your staff and yourself.

Strategy 6

Loans to and from the Company

The sixth strategy is to use loan agreements… and to understand the consequences for taking loans from your business and potentially making late repayments.

WHAT HAPPENS IF I BORROW FROM MY COMPANY?

If you take a loan from the company, the company must pay tax at 33.75% of the loan's value at its year-end.

The company pays this tax as part of its Corporation Tax return and it's done to stop you taking the money tax-free and running off without repaying it.

That 33.75% is repayable by HMRC when you repay the loan because the idea is that, when you do repay the loan, you've probably taken the money out as a dividend that has been taxed elsewhere.

However, sometimes it could be worth taking that loan out rather than taking a dividend.

This is relevant if you're paying tax on your dividends at 39.35%, i.e. if you are an additional rate taxpayer earning more than £150,000.

In this case, the loan is cheaper than the dividends.

WHAT HAPPENS IF I LEND MONEY TO MY COMPANY?

If you lend money to your company, as is often the case when you first set up your company, you can charge interest to the company.

The interest does need to be at a commercial or market-rate but there can be a tax benefit.

The company can claim tax relief on the interest paid, but you might receive the interest tax-free.

A basic rate taxpayer can earn up to £1,000 of interest each year tax-free. A higher rate taxpayer can earn up to £500 tax-free. However, there isn't a tax-free allowance for additional rate taxpayers.

Strategy 7

Pensions

Putting money into a pension is one of the most tax-efficient things you can do. And it's investing in your future.

You can put up to £40,000 each year into a pension and get tax relief. If you haven't used your allowance in the past three years, you can carry this forward as long as you did have a pension in place.

The £40,000 limit is reduced if you earn over £240,000 – you lose £1 of tax-free allowance for each £2 you earn over the £150,000 threshold until the limit is reduced to £4,000.

There is also a lifetime allowance of £1,073,100 for tax relief.

However, subject to sticking to these allowances, paying into a pension is a wise and tax-efficient thing to do.

Strategy 8

Renting your Premises

My eighth tax strategy is about commercial buildings. And, to really save you tax, I'm going to mix it with my seventh tax strategy on pensions.

One of the most tax-efficient things you can do is to invest money into a pension. To boost this even more, you could put your money into a Self-Invested Personal Pension, known as a SIPP.

A SIPP can buy a commercial property, for example a property for your business to rent.

Your business then pays rent to the landlord, i.e. your pension.

Therefore, your business claims tax relief on the rent, but your pension receives the rent tax-free, up to the annual pension allowance of £40,000.

The other bonus of this is that, one day in the future when you sell the building, any profit you make on selling the building is received by your pension tax-free.

So, using a SIPP to buy commercial property is a very tax-efficient thing to do.

Even if you are letting it out to other people, it's still a wise thing to do because they're paying into your pension tax-free and one day you'll sell the building for a tax-free profit.

The slight barrier to doing this for many people is having a pension big enough to buy the building. The rule is that you can take out a mortgage on a building bought by a pension, but the mortgage can be a maximum of one-third of the building's value.

For example, if you want to buy a building worth £300,000, you need to have £200,000 in the pension because you may only borrow £100,000.

So get saving in your pension now!

Strategy 9

Research & Development

Research and Development, or R&D, can conjure up an image of laboratories and people in white coats, but it doesn't have to be like that.

So, what is Research and Development? R&D is when you develop something innovative and new. This can be a new product but could also be a new system or process - a way of making things quicker or better within your business or for others.

If you have developed a new product, system, or service, you may be eligible to claim Research and Development credits. If you claim these credits, you can increase the tax relief you receive on the expenditure.

WHAT ARE R&D CREDITS WORTH TO ME?

The way this works is that for every £1 you spend, you get £2.30 deducted in your Corporation Tax return from your taxable profits.

What this means is that it increases your tax relief by nearly 25%.

EXAMPLE:

If you spent £100,000 on a standard expense, it would reduce your tax bill by £19,000, i.e. 19%.

However, if you spent £100,000 on expenses that could be deemed as Research and Development, it would reduce your tax bill by £43,700, which is 19% of £230,000.

That's an extra £24,700 knocked off your tax bill. So it is well worth doing.

There are a lot of criteria you need to fill in to be able to claim R&D credits. It can be a little bit technical, but it is something a lot of people are eligible for... but don't know about and miss out on the tax saving.

It's always worth checking as it can have a huge effect on your tax bill.

And it's something that HMRC actually wants to give you as the Government is incentivising you to innovate.

So please do speak to your accountant to see whether you are eligible.

Strategy 10

It’s all in the timing

My last strategy is all about timing. It brings together some of the other strategies, but I want to stress how deadlines and timing can significantly impact your tax bill. It’s why planning is so important.

TIMING OF CORPORATION TAX

If you own a limited company, you pay tax on the profits based on the year in which they are earned. And, in some cases, you get the chance to decide when they are earned.

As an example, if you’re going to make a large purchase, it is better to make it the day before your year-end than the day after.

This is because you get the tax relief a whole year earlier.

A couple of years ago, a new client came to us because they were upset over the tax bill. They had bought three vans for about £50,000. The year-end was on 31 December, and they bought them in the first week of January.

If they had bought them in the last week of December, they’d have got exactly the same tax relief – around £10,000. But they would have got it a whole year earlier, and that would have made a big difference on cashflow.

So that’s the first thing about timing.

TAX ON DIVIDENDS

If you’re taking money out of the company as dividends then you, as the owner, can decide when you take out the dividend.

For example, if you take the dividend out on 5 April, it’s in a different tax year than if you take out the dividend on 6 April.

Again, you can delay the tax bill by a year by taking the dividend one day later.

But you also get a chance to look at the different thresholds and the effect that might have.

For example, if you are paying dividend tax at 8.75% as a basic rate taxpayer and have used all of the 8.75% band by early March, you would pay tax at 33.75% on the next dividend. So you might wait until April to do it.

Conversely, if you haven’t used all of your allowances, you might pull your dividends forward to get them into that year. Because once your allowance has gone for the year, it’s gone forever.

WHAT OTHER THRESHOLDS ARE THERE?

And you also need to look at some of the other important thresholds that reset on 6 April every year.

- The first is your £2,000 tax-free dividends allowance.
- The next is when you become a higher rate taxpayer at £50,270
- £50,000 is the point at which you start to lose and child benefit. When you hit £60,000, all of the child benefit has gone. So, it might be worth capping yourself at £49,999 to keep the child benefit.
- The next significant threshold is when you hit £100,000 because you start to lose your personal allowance as well.
- The last one is the £150,000 threshold where dividend tax goes up to 39.35%, and you also start to lose your annual pension allowance.

Therefore, thinking in advance about the timing of when you spend money and when you take money from the business can have a significant impact on your tax bill.

Would you like some help to cut your tax bill?

I hope you found our strategies useful.

The key message is the importance of planning and organisation. It is also worth making sure that you have an accountant who is on the ball!

If you need any help or assistance with your accounts or any tax advice, please get in touch with us and we would be happy to help.

For example, we can prepare a tax diagnostic review on your business to make sure you take every penny from your business as tax-efficiently as possible.

If you would like to know more, please ring us on 0151 665 0900 or email us at tax@jondaviesaccountants.co.uk

Jon Davies
Founder, Jon Davies Accountants

You can call us on **0151 665 0900**
Email us at **tax@jondaviesaccountants.co.uk**
Read more at **www.jondaviesaccountants.co.uk** or follow us on Twitter, Facebook, Instagram, Linkedin and Youtube

And **always remember we're available for a chat at our office:**
Business First Business Centre, 23 Goodlass Road, Liverpool, L24 9HJ

xero GOLD PARTNER · ICAEW CHARTERED ACCOUNTANTS · intuit quickbooks Platinum ProAdvisor · Liverpool & Sefton Chambers of Commerce Member

DISCLAIMER
This guide is intended to help you cut your tax bill, but the use of each strategy will depend on the specifics of your business. Therefore, we always recommend that you seek a professional's advice before implementing any of these strategies. The facts in this document were accurate as of July 2022, and HMRC may make amendments at any time.

You can call us on

0151 665 0900

Email us at

tax@jondaviesaccountants.co.uk

JON DAVIES
ACCOUNTANTS

One of the North West's leading accountants for growing businesses