

Asked Questions



Why is the net amount on the profit calculations different to the net on my invoices?

This is due to the flat rate 'bonus' that you generate on each invoice. You charge VAT at 20% of the net amount but only pay over a certain percentage (based on trade sector) of the gross invoice to HMRC so you are paying over less VAT than has been charged, thus the net on the profit calculation reflects this.

Why do I have a PAYE rebate on my salary?

This is generally because you are now taking a much lower salary compared to that in your previous employment. Where the previous salary has had high rate tax deducted some (or all) of this higher rate tax may be refunded in the form of a PAYE rebate on your current salary.

You told me that taking a salary at the national insurance threshold was most tax efficient, so why is PAYE being deducted from my salary?

PAYE and NI are completely separate. Taking up to the NI threshold is generally the most tax efficient salary to take, this may incur some PAYE if you are not on a 'standard' tax code, but this will all be recalculated on your self assessment tax return and the PAYE you have paid will be deducted from your overall tax liability for the year.

How does flat rate VAT scheme work?

This is a VAT scheme designed to simplify the VAT process. You still charge VAT at 20% on your invoice but you pay a reduced percentage of the gross invoice in VAT to HMRC depending on the trade sector you work in. IT Contractors pay 14.5% of the gross invoice in VAT to HMRC so typically make a saving of around £2,000 per year (based on turnover of around £77,000 net pa).

When is corporation tax due?

Corporation tax is due for payment 9 months and 1 day after the accounting period end. If the accounting period is a full year this will be 9 months and 1 day from the yearend but earlier dates will apply if the financial year is longer than 365 days, typically in the first year.

Why do I have to pay payments on account for my personal tax?

You'll usually have to make 'payments on account' for the current year's tax if your previous year's tax was over £1,000 - unless more than 80 per cent of the previous year's liability was covered by tax taken off at source. Each payment is half of the tax due for the previous year; please refer to our Payments on Accounts Factsheet for further information.

Because I am self employed should I be paying Class 2 national insurance payments?

You are not self employed, if you are an employee of your own Limited Company and any national insurance contributions (if applicable) will be deducted from your annual salary. Please note if you take a salary at the NIC threshold then you will not have any national insurance deducted but you are still paying over the lower earnings limit in order to qualify for state pensions.

Sole Trader and members of partnerships will be liable to pay Class 2 NIC.

How will I be taxed when I close my company?

Shareholders looking to wind up their companies will be left with the following options:

- 1 Ensure that the reserves are below £25,000 (by declaring dividends) when making a distribution and then take advantage of the new statutory provision by informally striking off the company.
- 2 Go through a formal liquidation process (Members Voluntary Liquidation) by appointing an insolvency practitioner. The fees payable in this scenario are relatively high but if the company's reserves are significant, the tax saving could quite possibly outweigh the fees of an insolvency practitioner.

Any distribution made to shareholders in liquidation (formal or informal) is treated as capital for tax purposes and therefore is subject to Capital Gains Tax (CGT) rather than income tax (applicable to dividend distributions). This can be extremely advantageous to shareholders of a company as it allows them to utilise their CGT annual exemption (£10,600 in 2012/13) and if they are eligible to claim entrepreneurs relief, any gains in excess of the annual exemption are taxed at 10%.

Nixon Williams have established a relationship with a licensed insolvency practitioner who will formally liquidate a company introduced by us for a fixed fee of £3,500 + VAT and disbursements (approximately £300). The VAT on these costs will be reclaimed by the insolvency practitioner, assuming the company was VAT registered. If your company has reserves in excess of £25,000, Nixon Williams can calculate whether the tax saving obtained from formally liquidating the company will exceed the fees associated with the appointment of the insolvency practitioner.

We estimate that if you are seeking to close a company with reserves in excess of £50,000, formally liquidating the company will generally yield the highest return, after having paid all taxes and professional fees. This statement assumes that your income has already/or will during the tax year, exceed the higher rate tax threshold and that the gain is eligible to entrepreneurs relief.

I want to pay myself a bonus, is this tax efficient?

A bonus just like a salary is subject to National Insurance; both employers and employees. The rate of corporation tax relief does not outweigh the additional NIC incurred on salaries leaving dividends more tax efficient in most cases.

I have not used up all of my basic rate tax allowances for last year; can I declare a dividend now and back date it?

Unfortunately this would not be possible. When a dividend is declared, the directors of the company must hold a board meeting and reach an agreement to pay out a dividend to the shareholders of the company - minutes should then be prepared detailing the decision and these should be kept in the company register. It is not possible to hold the board meeting in the past and therefore dividends cannot be declared retrospectively. We recommend that you assess your higher rate tax position prior to the end of the tax year and declare a dividend from any retained earnings in the company in order to utilise any unused tax allowances prior

How much can I declare as a dividend before paying higher rate tax?

This will depend on how much you have been paid as salary and dividends for the current tax year (and any other income you may have) We can provide an estimate on request of how much more you can declare as dividends before paying higher rate tax. If you are taking a salary at the NIC threshold (2012/13 - £7,488) and have no other income then you will be able to take £31,488 in NET dividends before paying higher rate tax.

Legal

I want to pay NI to get a state pension when I retire.

You do not actually need to pay any NI to get a qualifying year for state pensions. Provided you have received salary in excess of the lower earnings limit (£5,564 for 2012/13) you will be credited with a qualifying year.

Can I invest in shares through my company?

It is possible to buy and sell shares in other companies through your own company, however, this is not always the most tax efficient way to make these transactions - when making a decision about whether to do this, the following should be considered:

- An individual is given an annual exempt allowance for capital gains of £10,600 (2012/13) per year, companies are given an indexation allowance which increases the base cost of the investment to reduce the gain and any gains made after indexation would be chargeable to corporation tax - in the majority of cases indexation would amount to much less than the £10,600 per year
- An individual who has gains in excess of their annual exempt allowance is taxed at 18% if a basic rate tax payer and 28% if a higher rate tax payer, gains made by a company are taxed at the prevailing corporation tax rate (certain exceptions apply - below)
- Although unlikely - if income from investments (dividends) exceeds 20% of turnover, the status of the company may be classed as a 'closed investment holding company' and all profits made by the company (not just from investments) would be subject to the main rate of corporation tax (24% 2012/13)
- Dividends paid out from investments are not subject to corporation tax, dividends paid to a person who is a basic rate tax payer, are not subject to additional tax. Higher rate tax payers pay an effective rate of 25%, or even, 36.1% if an additional rate taxpayer - of course if the investments are made by the company, any profits made on the investments will need to be extracted from the company and could affect your personal tax position at that point
- The cash paid out when purchasing shares would be classed as an investment and not an expense, no tax relief would be available in respect of the initial cash outflow
- Irrespective of whether the investment is made personally or through the company, capital losses can only be offset against gains made separately - if the company has unrelieved capital losses when wound up, the opportunity for tax relief is lost
- The main advantage of investing company funds is that the cash does not need to be first paid out as a dividend therefore it has no effect upon your personal tax position before being invested

Can my company lend money to another company that I am a director of?

You can lend money to another company that you are a director of providing that your company holds sufficient amounts of cash to meet any liabilities that fall due whilst the loan is outstanding. Details of the loan must be disclosed by a note to your accounts as a 'Related Party Transaction'. No corporation tax relief would be obtained through making such a loan and the two companies may be considered associates for corporation tax purposes which (if applicable) would reduce the threshold at which your profits would be subject to the small company rate - the threshold would be divided by the number of associated companies.

Can I appoint my 19 year old son as a shareholder so that I can avoid tax?

It is common belief among small business owners that by structuring a company's shareholding in such a way that a portion of dividends is payable to a family member will reduce the overall tax payable, however, HMRC have anti-avoidance legislation to prevent this set-up from being operated, this is called Settlements Legislation (S660). Under this legislation, if such a payment was made, then the tax burden would fall upon the fee earner - thus negating the potential benefit of using the split shareholding. The legislation was famously put to test in 2007 in the Jones vs. Garnett (Arctic Systems) court case which ruled in favour of the tax payer, however, as the settlement was between a husband and wife it was considered to be exempt from the legislation due to the shares being treated as an outright gift between spouses. The legislation would, however, still apply if the agreement was not between spouses or civil partners but to other members of the family where the money is somehow transferred back to the fee earner.



I want to employ my 15 year old daughter part-time to do my expenses; are there any forms that need to be completed to do this?

If your child is of 'compulsory school age' (between the age of 13 and the last Friday in June of the academic year their 16th birthday falls into), they will be classed as a child employee and certain requirements will apply to their employment:

A work permit must be obtained (available on application) from the local council's education department, no work can be undertaken until this is received.

As part of the application, desired working hours must be included, which are subject to the following rulings:

- No work can be completed before 7am, after 7pm or during school hours
- A maximum of 1 hour's work can be completed before school and a break of at least an hour must be provided for more than four hours work
- A full 2 week break must be taken from work during the school holidays each year
- The work permit will also only be granted subject to a maximum number of hours:
 - Term Time: Maximum of 12 hours per week, no more than 2 hours on school days and Sundays and 5 hours on a Saturday (13/14 years old) and 8 hours on a Saturday (15/16 years old)
 - School Holidays: Maximum of 25 hours per week (13/14 years old) with no more than 5 hours on weekdays and Saturdays and a 2 hour limit on Sundays. Maximum of 35 hours per week (15/16 years old) with no more than 8 hours on weekdays and Saturdays and a 2 hour limit on Sundays.
- Whilst considering a salary level, it should be noted that there is no national minimum wage for employee's under the age of 16. Any pay amount must be deemed reasonable for the skill and amount of work completed and must be at a level equal to consider the amount of pay you would provide to a third-party (in similar circumstances) for completing the same work. Given the low amount of administration required for most small businesses, only a small number of hours would be expected by HMRC.

What is a self billing invoice?

Self-billing is an arrangement between a supplier and a customer in which the customer prepares the supplier's invoice and forwards a copy to the supplier with the payment. If you find yourself in receipt of such paperwork then it is a VAT Regulation that you work from this and do not create your own invoice.

What do I do with the tax credit on my dividend?

You should only take the amount listed as dividends payable on your dividend certificate. Dividends are paid with a 10% notional tax credit but are subject to 10% tax at the basic rate, which cancels this out. Therefore dividends are effectively paid free of tax to basic rate tax payers. Additional tax will be due from higher and additional rate tax payers.

Do I have to complete a Self Assessment Tax Return and how do I go about it?

Yes, company directors and other self employed persons need to complete a Self Assessment Tax Return. All you need to do is complete our tax return questionnaire online (by 30th September following the tax yearend in question) and we will contact you for any further information/payment that is required. The completion of a standard Self Assessment Tax Return is included as part of our service but extra charges may arise for any non-standard returns i.e. those with rental income, capital gains calculations or particularly complex tax affairs. A charge may also apply if you joined us part way through the tax year.

I want to transfer some shares to my husband/wife/boyfriend/girlfriend/children etc. what are my options?

Assuming that you are married or civil partners then a transfer of some shares can now be made to your spouse. Note that this is not available to unmarried couples or other relatives; please refer to our factsheet on this area for more details.

General

How long does it take to set things up?

Once you have become an active client we will then proceed to register the business for all the relevant schemes. This may include VAT, PAYE and Corporation Tax. The process usually takes around 2 weeks to be completed once the registration has been actioned. This is completely dependent on HMRC once we have sent the applications and can be delayed if they decide to request further information.

How long does VAT registration take?

We will apply for this the same day we take you on as a client (where applicable) and the VAT certificate is usually received from HMRC within a couple of weeks. However, if they request further information or do a random check into the application this could cause delays.

How long will it take to set up a Cater Allen bank account?

The Cater Allen account is normally opened within 5 working days of them receiving a completed application form. If any details are missing or they need to do further checks then this timescale will be delayed.

How do I pay myself?

Upon receipt of your invoices and expenses we will run your salary along with a profit calculation. Once you receive these you should transfer the net pay as per the payslip from the business account to your personal account. If you wish to declare a dividend from the available profit you can do so just let your account controller know the amount and we will produce the necessary documentation. Upon receipt of these you can pay the dividend from the business account.

Why does my profit calculation show a loss when my recent year end accounts show a profit?

The profit calculations you receive reset back to zero once you reach your company's year end, this is to reflect your company's profits during each year. Your annual accounts will show the total profit available at the end of your company's year. Therefore, if a dividend is declared after your company's yearend based on the previous year's profit it will show a loss on your monthly profit calculation sheet. However, this does not mean that your company is running at a loss, it is simply a reporting process.

How can I invest my company's money?

There are a number of options available to you when it comes to investing any surplus money you may have in your company, such as: using high interest accounts/bonds, taking a loan from the company (generally not advisable), making company pension contributions, investing in shares or commodities. Please make sure you are aware of how much money needs to be retained in the company to pay various liabilities as they become due. Please see our Cash Surplus Factsheet for further information.

Can I invest company money that is reserved to pay taxes with?

This is a possibility, however, it is not advised unless you are able to ensure that the funds required to pay your various tax liabilities are available when necessary i.e. transferring to a separate company high interest savings account where the money is easily transferred back.

Is my annual return the same as my accounts?

Your annual return that is required to be filed at Companies House on a yearly basis is totally separate from your annual accounts that we prepare. It is simply a snapshot of your company information on a particular date and contains the following; the name of the company, the registered number, the type of company, the date to which the annual return is made-up, the registered office address of the company, the details of the company secretary (if applicable) and directors and the principal business activity of the company.

I need a reference; can you assist me with this?

Yes, part of the service we provide to you is the provision of mortgage and tenancy references where you may require one. Please contact your Account Controller in writing with the details of what you require and we can prepare this for you.

Expenses

What expenses can I claim?

You may claim for expenses that you need to incur to run your business, however they must usually be 'wholly and exclusively' for the purpose of the business. Examples of such allowable expenses are home office costs, training, travel, accommodation, mobile telephones, internet access, computer equipment, insurance, accountancy fees and subscriptions. Please see our Expenses Guide for further information.

Can I claim the cost of glasses?

The provision of an eye test is allowable as a business expense to employees. As with all expenses if you can justify the cost as being wholly and exclusively for business purposes then it can be claimed (normally the glasses must be for VDU work only), though this could be hard to justify and in most cases are seen as being for a dual purpose.

Do I need to keep receipts?

HMRC require you to keep hold of all paperwork, including receipts as these form your business records. There are different timescales relating to different taxes so we would advise holding onto everything for a minimum of 7 years.

How can I make pension contributions?

You can either make personal pension contributions or employer contributions from your company and depending on your current circumstances each method could be advantageous to you from a tax perspective. Nixon Williams are not authorised to give any specific investment advice so we cannot advise on which pension product(s) to choose, only the tax reliefs involved. Please see our Pension Contributions Factsheet for more information.

Can I pay my partner a salary?

You can pay your partner a salary, however, this can be difficult to justify to HMRC. If your partner was to be carrying out general administration duties then HMRC would not see this as taking more than a couple of hours per month paid at an appropriate hourly rate. If your partner was working through the business and generating income then by all means this would be fine, however, this would incur an additional fee from ourselves for the salary to be issued.

I have purchased some new clothing to wear while working. Can I reclaim the cost of this as a business expense?

The cost of everyday corporate clothing such as shirts, blouses, trousers, skirts and suits would not normally be reclaimable as an expense. The only exception to this might be if the clothing was uniform or protective clothing. The clothing cannot be claimed as a uniform simply because all workers are required to wear this type of clothing, the test would be if someone wearing the clothing would be recognisable in the street as wearing a uniform, such as a firefighter or a nurse. If such work clothing were to be provided, it would constitute a benefit in kind and as such would be subject to additional income tax and NICs.

I want to claim for some furniture and for the re-decoration of my home office; I trust that this is acceptable?

Claiming furniture for your home office is an acceptable expense, however, there are certain criteria that would have to be met:

- it must first and foremost be relevant and its cost not excessive for its purpose as office furniture - furniture up to a value of £300 is unlikely to be questioned in an investigation
- The personal use of the furniture must be insignificant - when measuring significance, the frequency of the furniture's use for work purposes should be considered, if personal use is anything more than insignificant a benefit in kind would arise
- In the event of an investigation from the HMRC, you must be able to justify that the personal use is insignificant. If you are not confident that this justification can be met, we would advise that you do not claim for the furniture.

Can I rent an office to work from and how do I go about it?

If you wish to rent an office to work from that isn't a room/office in your personal residence (please see our Home Office Factsheet for more information) then this is a possibility, however, it will be best to ensure that; the requirement is absolutely necessary to the running of the business, the rental agreement is in your Limited Company name and ideally paid direct from the company bank account.

I wish to build an office at the bottom of my garden which will be used as an office space; can I claim this as a company expense?

Whilst you could theoretically claim for an expense of this nature, it is certainly not something that we would advise is claimed and there are several things that should be taken into account before making a decision as to whether to proceed:

- you could potentially lose out of the full benefit of Private Principle Residence relief (PPR) and thus suffer capital gains tax when your home is sold
- if such an expense was to be claimed as a business expense, it should be furnished suitably as an office and so should not contain personal/leisure equipment - in the event of a HMRC investigation you may be required to justify it as an office space not just an improvement to your home
- the cost should not be excessive and any work carried out in its construction should be commercial.

I am thinking of buying a company car, what is the best option?

Generally, company cars are not tax efficient for owner managed companies i.e. where the recipient of the company car is also the sole shareholder, as the same person effectively ends up paying both the employee and employer taxes. Normally the only time a company car is tax efficient is if you are an employee of a company you do not hold shares in or if the car is particularly friendly to the environment i.e. low emissions, however, our factsheet on Company Cars does have further information for your consideration.

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