Pre Year-End Tax Planning

April 6 is fast approaching, which means it's time to start planning for the end of the tax year, and look at different ways you can maximise your tax savings for 2021.

Keep on reading to discover some key steps you can take.

Pre 6 April tax planning

Step 1: Pay into your pension

The first step to making the most of your tax allowances can mean looking closely at your pension. UK residents under 75 can add money to a pension and receive tax relief on it. You'll automatically get basic rate tax relief (currently 20%) paid into your pension by the government.

If you pay tax at a higher rate you could get up to a further 25%, but you'll need to claim it by declaring any pension contributions you've made on your tax return.

To make the most of your pension, you need to know the Pension allowances that you are entitled to. If you have not used them to the full, there may still be time to top them up – and start planning on how you will use them next tax year.

The annual allowance is the maximum you can invest in your pension each year that would be eligible for tax relief. It is currently £40,000, or your entire income, whichever is the smaller and there are lifetime allowances to consider.

If you run a limited company then there are some actions you could consider such as dividend and salary planning, purchasing capital items to maximise capital allowances, research and development tax credits and a range of other matters.

Please talk to us about pre-tax year end planning for your business and for specific pension planning advice, we can refer you to an independent financial adviser.

Step 2: Reduce your company's corporation tax bill

Despite the tricky trading conditions over the last year the accounts will show a profit. What steps can you take to legitimately reduce the corporation tax bill?

Tax saving

Generally, expenses that your company incurs are tax deductible. However, special rules mean that tax relief for some expenses might be given for a different financial year than that in which they are recorded for accounting purposes. When tax planning for your company, especially near its financial year end, it's important to know when you can use the timing differences to your advantage.

Pay directors' bonuses

Awarding a bonus or extra salary for the company's owner managers will reduce your company's corporation tax (CT) bill but needn't cost your company anything immediately.

Tip. You can propose a bonus subject to approval of the company's accounts. You won't have to pay tax and NI on it until the date the accounts are finalised and approved. The bonus doesn't have to be paid to the directors. They can leave the cash in the company for as long as they want as a credit to their directors' loan accounts.

Example. We provide the accounts for the year to 31 March 2021 for approval in, say, June. You defer approval until early September. You must make a PAYE report on the date the accounts are approved and pay the tax and NI due on or before 19 October.

Write off stock

The lower the value of your stock at the end of your company's financial year, the less your company's CT bill will be.

Tip. Make sure your stocktake is thorough. Unusable materials should be valued at zero in your books. Also, any goods that you expect to sell for less than they cost your company, say because they're old stock, you can include in your accounts at sale price instead of their cost.

Directors' pensions

Any pension contribution paid by your company by the end of its financial year will reduce its tax bill. However, there's a tricky tax rule you need to be aware of.

Trap. For most types of expense you're allowed to accrue a deduction, i.e. claim it for the financial period in which you become committed even though it won't be paid until after the financial year. This doesn't apply to a pension contribution. Instead a deduction is allowed for the financial year **in which it's paid** to the pension company.

Bring forward expenses

If you intend to buy equipment next financial year, whether it's a car, machinery or new computers for the office, by signing the purchase agreement by the end of the current financial year you can claim the tax deduction (capital allowances) a full year earlier.

Example. Acom Ltd's financial year ends on 31 March 2021. Its two directors plan to buy new company cars in June. If they sign the contract by 31 March they can claim the tax deduction for the full cost of the car as long as payment is made within four months. Tip. The four-month rule doesn't apply to HP and similar types of purchase arrangement.

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BONUS: Business planning for recovery

We cannot predict the date of a return to normality, but there are some practical steps you can take to minimise potential disruption to your business and maximise opportunities for recovery:

1. Review your Budgets and set realistic and achievable targets for the remainder of 2021.
2. Review and flowchart the main processes in your business (e.g. Sales processing, order fulfilment, shipping etc.) and challenge the need for each step.
3. Encourage team members to suggest ways to streamline and simplify processes (e.g. sit down and brainstorm about efficiencies and cost reduction).
4. Put extra effort into making sure your relationships with your regular and long-standing customers are solid.
5. Review your list of products and services and eliminate those that are unprofitable or not core products/services.
6. Use the current lockdown as an opportunity to reflect on the exceptional challenges you have faced as a result of Covid-19 over the last 12 months. What were your most significant accomplishments? Have you encountered any setbacks or disappointments? Consider what you have learned from your experiences to improve your prospects for later on in 2021.
7. Your final task is to set yourself and the business some specific goals for recovery. Make sure to keep them visible and share them.