

# YEAR-END PLANNING FOR COMPANIES

Tolley®

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## Year-end planning for companies

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For many companies the approach of Christmas signals not just seasonal festivities but also the end of their accounting period on 31 December. The weeks and days running up to the end of an accounting period offer a last chance to review the company's tax position for the period and take advantage of any opportunities to make tax savings or to avoid potential pitfalls. Tax avoidance has been very much in the spotlight during 2013 with headlines in the general media as the Public Accounts Committee quizzed directors of a number of multinational companies about their tax policies. Meanwhile, the appeal tribunals continued to apply the Ramsay principle in a number of cases and the Finance Act 2013 included the usual raft of specific anti-avoidance legislation and a controversial new general anti-abuse rule. Whilst none of these developments can be ignored, they should not affect straightforward year-end tax planning.

Where transactions have been planned to take place around the year end it may be more tax effective to defer income or gains to the following accounting period to reduce the taxable profits of the current period or to achieve the same effect by advancing revenue or capital expenditure. Income may be deferred by, for example, timing sales of goods, services or assets to fall into the later accounting period. Possible items of expenditure which could be brought forward might include staff bonuses, pension contributions and purchasing assets qualifying for capital allowances. Reducing taxable profits in this way is particularly advantageous where the profits would otherwise exceed the £300,000 limit for the small profits rate but remain below the limit for the main rate (£1,500,000). To the extent that profits exceed the lower but not the upper limit they attract a marginal CT rate of 23.75%. Note that if the company has any associated companies or if the accounting period is less than twelve months the £300,000 and £1,500,000 limits are reduced. Companies paying the main rate of CT may also benefit from deferring taxable profits because of the reduction in the rate from 23% to 21% for financial year 2014. Deferring profits should also be considered with a view to increasing current trading losses which can be carried back and offset against profits of accounting periods ending in the previous year. This would provide a cash flow advantage and in some cases may enable losses to be relieved at a higher rate of corporation tax. There may also be circumstances in which it would in fact be beneficial to advance income or delay expenditure to reduce a loss which is not immediately relievable. It should be borne in mind that trade and property business profits must be calculated in

accordance with generally accepted accounting practice, subject to any adjustment required or authorised by tax law, so that any deferral or advancement of income or expenses must usually be recognised in the profit and loss account in the relevant accounting period for the hoped for tax effect to apply.

The effect of bringing forward expenditure will be enhanced if the expenditure qualifies for a particular tax relief. For example, a small or medium-sized enterprise which incurs revenue expenditure on research and development (as specifically defined) can obtain relief for 225% of that expenditure. Capital expenditure on plant or machinery for use in a trade or other qualifying activity may qualify for a 100% annual investment allowance (AIA) or first-year allowance (FYA).

The temporary increase in the maximum AIA to £250,000 per year for expenditure incurred in the period 1 January 2013 to 31 December 2014 provides further scope for planning. If the whole of the available allowance is not used in an accounting period the unused balance cannot be carried forward, so it is worth considering how to use the allowance as fully as possible. A company can only use one AIA in an accounting period, no matter how many qualifying activities it carries on, but can choose how the amount is allocated between activities to maximise its use. Similarly, only one AIA is available to a group of companies or to companies under common control, but again the companies can choose how to allocate it. First-year allowances usually only need to be considered where a company's expenditure on plant or machinery exceeds the AIA maximum. In such a case first-year allowances should be claimed in priority to AIA, as this leaves the AIA available for expenditure not attracting FYAs. No AIA is due on a car, but writing-down allowances at 18% per year (instead of the normal 8% rate) can be claimed for low emissions cars (ie, from April 2013, cars with CO<sub>2</sub> emissions of not more than 130 g/km). In considering whether to bring forward capital expenditure to obtain capital allowances in a particular accounting period, it should be remembered that expenditure is treated as incurred (and an entitlement to allowances therefore arises) as soon as there is an unconditional obligation to pay it. This is subject to certain exceptions, in particular where there is an agreement under which an unconditional obligation to pay is brought forward on non-commercial terms in order to accelerate an entitlement to allowances.

Owner-managed companies also need to consider whether surplus profits should be extracted from the company as dividends or bonus or retained in the company. The optimum strategy will depend on both the tax and NIC position of both the company and the director/shareholder. Retaining profits in the company will avoid an immediate income tax

charge but may increase the value of the company if the shares are subsequently sold. Retention of substantial profits within the company may affect the availability of entrepreneurs' relief, which reduces the rate of CGT from 28% to 10%, if the funds are actively invested outside the company's trade.

The company's accounting date will in many cases also be the last chance to review the tax position for earlier years. Where, for example, a company has a consistent accounting date of 31 December, amendments to the return for the year ended 31 December 2011 cannot be made after 31 December 2013. Claims which must be included in the return, such as for capital allowances, are subject to the same time limit. Loss relief claims must be made within two years of the end of the accounting period in which the loss was made. Some claims are subject to a four-year time limit, so that a company with a 31 December accounting date must make any claim for the year ended 31 December 2009 by 31 December 2013. Although not subject to a formal time limit, a claim to create a deemed loss on an asset of negligible value can be referred back up to two years (providing the asset was of negligible value both at the date of claim and at the date specified in the claim), so that a claim made by 31 December 2013 could give rise to a loss in the year ended 31 December 2011.

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[Tolley®Guidance](#) includes clear strategies and more detail on ideas for year-end planning. Perhaps most importantly, it sets out the potential pitfalls of which to be wary.

[Simon's Taxes](#) and [Tolley's Tax Planning](#) both include a chapter on year-end planning for companies.