

Tax Tips for the not so good times

When I rang up one of my more jovial clients for a “how is everything going” chat I was surprised to hear that trade wasn’t so good. “Still” she said, “at least if it’s a rubbish year I won’t have such a big tax problem”. It made perfect sense but unfortunately she couldn’t be more wrong.

It may seem odd, but I am just as concerned about tax when things are not going so well. Accountants and tax advisers are often accused of being all doom and gloom and we alone are probably responsible for this economic downturn! To help to redress this situation I offer some tax tips on surviving these turbulent times.

My company had a great year last year and I know that a large tax bill is going to be due. The problem is that this year is terrible and I am worried that I won’t have the money to pay the tax.

- | | |
|----------------|---|
| Problem | Most businesses fund last year’s tax bill out of this year’s profits, so a bad year can make it difficult to find the money to pay the tax for the previous year. |
| Tax Tip | Don’t panic. Provide your records to your accountant as early as possible so that you have the maximum amount of time to plan for the payment. You can then speak to your bank / negotiate a plan for payment with HM Revenue & Customs before it’s too late. |

I am self employed and I am being asked to pay tax on account which is above what I think I will owe.

- | | |
|----------------|---|
| Problem | The self employed (and certain other tax payers) have to make personal tax payments in January and July for the current tax year. These are based on the tax you paid the previous year. If your income has fallen you may pay too much tax on account, only to have the money refunded later on when you fill your tax return. |
| Tax Tip | It is possible to ask HM Revenue & Customs to reduce these payments down to what you expect to need to pay overall. However, don’t reduce them too far otherwise HM Revenue & Customs will charge interest (and in extreme cases a penalty) on the difference . |

I am struggling to pay the VAT Man because my customers are not paying me on time.

- | | |
|----------------|---|
| Problem | Normally VAT is paid over to HM Revenue & Customs based upon when a sales invoice is raised. This can mean that you have to pay VAT over to HM Revenue & Customs before your customer has even paid you. You can claim the VAT back from HM Revenue & Customs after 6 months (from the due date) if it still remains unpaid but that’s a long time. |
|----------------|---|

Tax Tip If your business has annual sales of less than £1.35m consider operating the cash accounting scheme. This means that you only pay VAT over to HM Revenue & Customs when your customer pays you. This can have a large cash flow impact on your business but remember that it works both ways – you can only claim back VAT costs on the cash basis too. However, most businesses will benefit by using the scheme and it is worth looking at in more depth.

I am self employed and several years ago my accountant advised me to have an April year end. Was he right?

Problem Probably. When profits are rising an April year end can be of benefit because the tax on growing profits can be delayed. However, if profits are falling it can take longer to receive a corresponding fall in your tax bills.

Tax Tip If your profits are falling consider whether an April year end is still worthwhile.

I am preparing my accounts soon. Is there anything I can do to save tax?

Problem Your accounts need to show not only the money you have received from your customers during the year but also any invoices outstanding. If appropriate you need to show any stock left and any work unbilled at the end of the year too.

Tax Tip Look at the value of the stock in your books and also whether you will receive all money owed to you from your customers at the end of the year. Specific and genuine provisions against these amounts will save you tax. It is best to speak to your accountant before the end of your year to ensure that all the provisions will qualify.

I am starting a business, should I be a limited company?

Problem New businesses can lose money at the beginning. If you trade through a limited company these losses stay within the company and can't be used against tax already paid on personal income.

Tax Tip Consider whether it would be better to start your business as a sole trader, partnership or limited liability partnership. There are still restrictions on the use of these losses against other income but they are far more flexible.

I normally take dividends from my company but it's been a bad year. Can I continue to do so?

Problem Although dividends can be a tax efficient way to take money from limited companies (particularly those with smaller profits) you need to be careful if the company doesn't have enough reserves to cover the payments. Illegal dividends may need to be repaid meaning that the shareholders owe the company money.

Tax Tip Make sure that the Directors properly consider and record in a Board Minute the company's profit available for distribution before paying a dividend. If there not sufficient reserves the directors may need to look at other ways to take money from the company such as a salary or a loan, both of which have tax implications.

I have been a trading as a limited company but I feel the Chancellor is making this option less attractive each year.

Problem When a business is transferred into a limited company (from say, a sole trader) there are various tax breaks available. However, if it is the other way round (e.g. transferring a limited company business to a sole trader) then the same tax breaks aren't available and it is possible that your company has to pay the value of the business (known as goodwill).

tax on

Tax Tip The goodwill has to be valued at market value, but in a tough economic climate this figure should be lower than it will be when times are good. If you don't want to trade through a limited company anymore, now might be a good time to transfer the business back to you while its value is depressed.

My income has always been too high for tax credits so I have never bothered to register a claim.

Problem There might be several reasons why your taxable income may reduce and not just because times are tough for your business. For example, the new way a business saves tax when buying assets (e.g a new van) may mean that you have low taxable business profits even though things are going really well. Tax credits are only paid when your income falls below certain limits which depend upon your individual circumstances, but imagine your income has dropped and it takes you 9 months to realise. The problem is that Tax Credits can only be back dated up to 3 months so you wouldn't be able to claim the first 6months even though you were technically entitled to.

Tax Tip Consider making a provisional claim for Tax Credits. Even if nothing is payable now you will be in the system and you will be able to advise HM Revenue & Customs of your actual circumstances and adjust any claim accordingly. It could be worth up to £5,600 per year.