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Companies - Tax Saving Opportunities

Due to the ever changing tax legislation and commercial factors affecting your company, it is advisable to carry out an annual review of your company's tax position.

Pre-year end tax planning is important as the current year's results can normally be predicted with some accuracy and time still exists to carry out any appropriate action.

We outline below some of the areas where advance planning may produce tax savings.

For further advice please do not hesitate to contact us.

Corporation tax

Advancing expenditure

Expenditure incurred before the company's accounts year end may reduce the current year's tax liability.

In situations where expenditure is planned for early in the next accounting year, the decision to bring forward this expenditure by just a few weeks can advance the related tax relief by a full 12 months.

Examples of the type of expenditure to consider bringing forward include:

- building repairs and redecorating
- advertising and marketing campaigns
- redundancy and closure costs.

Note that payments into company pension schemes are only allowable for tax purposes when the payments are actually made as opposed to when they are charged in the company's accounts.

Consider whether any additional remuneration/bonuses should be voted to directors in respect of the current accounting period (these can be paid up to nine months after the year end although the PAYE and National Insurance may need to be paid sooner than that).

In addition, relief for qualifying charitable donations is available in the accounting period in which they are paid so consider bringing forward payment of donations to obtain the tax relief sooner.

Capital allowances

Consideration should also be given to the timing of capital expenditure on which capital allowances are available to obtain optimum reliefs.

Single companies irrespective of size are able to claim an Annual Investment Allowance (AIA) which provides 100% relief on expenditure on plant and machinery (excluding cars) up to a limit of £1 million per annum.

Groups of companies have to share the AIA. Expenditure on plant and machinery in excess of the AIA is generally eligible for writing down allowance (WDA) at the main rate of 14% (18% prior to 1 April 2026), or at the special rate of 6% for capital expenditure on integral features.

Limited allowances are also available for qualifying expenditure on business-related buildings and structures.

Full Expensing

Companies investing in qualifying new and unused plant and machinery can benefit from first year capital allowances.

Under this measure, a company will be allowed to claim:

- A first year allowance of 100% on most new and unused plant and machinery expenditure that ordinarily qualifies for main rate writing down allowances (Full Expensing).
- A first year allowance of 50% on most new and unused plant and machinery expenditure that ordinarily qualifies for 6% special rate writing down allowances.

The relief specifically excludes expenditure on cars, and most plant and machinery for leasing. The relief is only available for companies and not for unincorporated businesses.

First year allowance

For expenditure incurred on or after 1 January 2026, there is a 40% first year allowance on main rate pool assets, including most expenditure on assets for leasing. Cars, second-hand assets and assets for leasing overseas are not eligible. This will be predominantly useful for companies purchasing assets for leasing who have exceeded the AIA.

Trading losses

Companies incurring trading losses generally have three main options to consider in utilising these losses:

- they can be set against any other income (for example bank interest) or capital gains arising in the current year
- they can be carried back for up to one year and set against total profits
- they can be carried forward and set against profits arising from different types of income in future years.

The use of a company's or group's carried forward trading losses is restricted to an allowance of up to £5 million, plus 50% of remaining profits after deduction of the allowance.

For those companies within a group, current period trading losses can also be surrendered as group relief to reduce taxable profits in other group companies with corresponding accounting periods. For losses arising after 1 April 2017, companies can claim group relief for losses that have been carried forward, subject to the restriction noted above.

Extracting profits

Directors/shareholders of family companies may wish to consider extracting profits in the form of dividends rather than as increased salaries or bonus payments.

This can lead to substantial savings in National Insurance contributions (NICs).

Note however that company profits extracted as a dividend remain chargeable to corporation tax.

Dividends

From the company's point of view, timing of payment is not critical, but from the individual shareholder's perspective, timing can be an important issue. A dividend payment in excess of the Dividend Allowance which is delayed until after the tax year ending on 5 April may give the shareholder an extra year to pay any further tax due. The Dividend Allowance is £500 for 2026/2027.

The deferral of tax liabilities on the shareholder will be dependent on a number of factors. Please contact us for detailed advice.

Loans to directors and shareholders

If a 'close' company (broadly, one controlled by its directors or by five or fewer participators) makes a loan to a participator, this can give rise to a tax liability for the company. (A participator is any person having a share or interest in the capital or income of the company.)

If the loan is not settled within nine months and a day of the end of the accounting period, the company is required to make a payment to HMRC equal to 35.75% of the loan advanced (33.75% for loans advanced from 6 April 2022 to 5 April 2026). The money is not repaid to the company until nine months and a day after the end of the accounting period in which the loan is repaid.

A loan to a participator who is also a director or an employee may also give rise to a tax liability on the individual on the benefit of a loan provided at less than the market rate of interest.

Rates of tax

The main rate of corporation tax is 25% for companies with profits over £250,000. Companies with profits of £50,000 or less pay corporation tax at 19%. Companies with profits between £50,000 and £250,000 pay tax at the main rate reduced by marginal relief, providing a gradual increase in the effective corporation tax rate.

Self assessment

Under the self assessment regime most companies must pay their tax liabilities nine months and one day after the year end.

In general, companies which have profits in excess of £1.5m have to pay tax in instalments. This limit is reduced if the company is a member of a group. If you require any further information on instalment payments, we have a factsheet which summarises the system.

Corporation tax returns must be submitted within twelve months of the accounting period end and are required to be submitted electronically. In cases of delay or inaccuracies, interest and penalties will be charged.

Capital gains

Companies are chargeable to corporation tax on their capital gains less allowable capital losses. Brought forward capital losses can be offset against capital gains, but relief is subject to the same restrictions as those for brought forward trading losses.

Planning of disposals

Consideration should be given to the timing of any chargeable disposals to minimise the tax liability. This could be achieved (depending on the circumstances) by accelerating or delaying disposals and the availability of losses and other reliefs.

Purchase of new assets

It may be possible to defer a capital gain if the sale proceeds are reinvested in a new, qualifying replacement asset. This is called 'Rollover Relief' and allows the company to defer being taxed on the gain on disposal of the original asset until the new asset is sold.

There are conditions to the relief, including that the replacement asset must be acquired in the four year period beginning one year before the disposal.

How we can help

Tax savings can only be achieved if an appropriate course of action is planned in advance. It is therefore vital that professional advice is sought at an early stage. We would welcome the chance to tailor a plan to your specific circumstances. Please do not hesitate to contact us.