UPDATED VERSION: 4TH JANUARY 2023

CHECKLIST (22/23 Tax Year)

32 WAYS TO EXTRACT MAXIMIUM VALUE FROM A BUSINESS ADVISOR:

TAX ADVICE AREA	CHECK
SALARY & DIVIDENDS	
Salary	☐
Employing spouse, civil partner or family member	☐
Dividends	☐
Giving shares to family members	☐
PENSIONS	
Registered pension schemes	☐
LOANS	
Loaning money to the business and employee loans	☐

DIAGNOSTAX

CHECKLIST

32 WAYS TO EXTRACT MAXIMIUM VALUE FROM A BUSINESS ADVISOR:

TAX ADVICE AREA	CHECK
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CHECKLIST

32 WAYS TO EXTRACT MAXIMIUM VALUE FROM A BUSINESS ADVISOR:

TAX ADVICE AREA	CHECK
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CHECKLIST

32 WAYS TO EXTRACT MAXIMIUM VALUE FROM A BUSINESS ADVISOR:

TAX ADVICE AREA	CHECK
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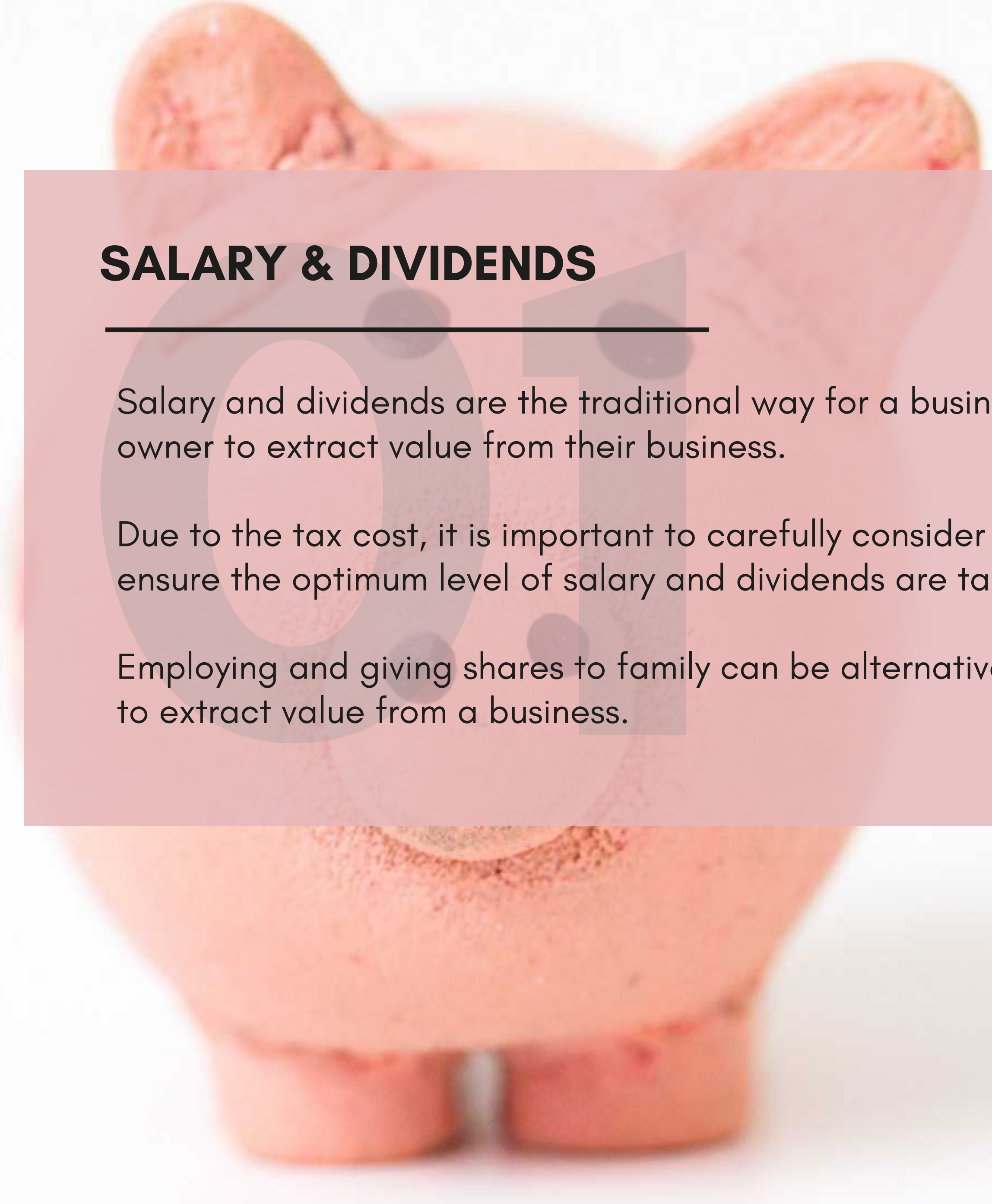
Congestion charge – company car	☐
Business travel	☐
Subsistence & entertaining	☐
Music, Audio book & Amazon Prime subscriptions	☐
Points rewards cards	☐
School & University fees planning	☐



SALARY & DIVIDENDS

Salary and dividends are the traditional way for a business owner to extract value from their business.

Due to the tax cost, it is important to carefully consider this to ensure the optimum level of salary and dividends are taken.

Employing and giving shares to family can be alternative ways to extract value from a business.

SALARY

Generally, a salary should always be taken but kept to a low level.

A minimal salary – above £533 per month (£6,396 per year) – is important to retain access to state benefits such as the State Pension.

1. A salary of £823 per month (£9,880 per year) is usually the norm where there are multiple employees and there is enough of the £5,000 employers' national insurance "employment allowance" available. There should be no national insurance contributions payable in this scenario. This amount has increased to £1,047 per month and £12,570 per year from July 2022. For the whole tax year (6th April 2022 to 5th April 2023), directors will need a salary of £992 per month (£11,908 per year).

2. If there is only one employee of the company or if the employers' national insurance "employment allowance" is already used or not available, the norm is usually £758 per month (£9,100 per year), again to ensure no national insurance is payable.

There are lots of exceptions to the norm that can make taking a higher salary more suitable, such as:

Continued...

SALARY

- Where you can't take dividends or have an agreed or fixed amount of value to take out of the business (e.g. directors in investor backed businesses).

- If you are heavily involved in "Research and Development" your salary can qualify for enhanced relief against corporation tax, which makes it more efficient to pay a higher salary (as opposed to dividends).

- The "Employment Allowance" (a £5,000 allowance against employers' national insurance, provided the total secondary class 1 NIC liabilities are below £100k in the previous tax year) can mean a higher salary can be paid without incurring employers' national insurance contributions. This could for example make it worthwhile to have a salary of £12,570 - here the only cost would be the employee national insurance.

- An employee who is over state pension age will not pay national insurance contributions. So for example a 68 year old could have a £12,570 salary with no tax or NIC (if the employment allowance is available).

- If you are looking for a mortgage or to re-mortgage (or other personal loan), some lenders will base their credit scoring on employment income (rather than dividends).

EMPLOYING SPOUSE/CIVIL PARTNER, OR FAMILY MEMBER

If they have a lower overall income than you, consider employing a spouse / civil partner or family member so that the company can benefit from the additional resource, the individual can use their personal allowances and/or lower level tax bands, and the company can make a national insurance saving.

It is important that their pay can be justified in terms of actual activities on behalf of the company.

For a single employee company, employing an additional employee may also make the Employment Allowance available.

DIVIDENDS

After salary, the most commonly used method to take the remaining amount of desired cash from the company is via dividends. The first £2000 are tax free and should be taken out as a minimum. From April 2023, the tax-free amount changes to £1,000 and again in April 2024 to £500.

Above this level, up to £50,270 of total income, the tax rate on dividends is relatively low at 8.75%, but above £50,270 the methods of taking value becomes much more important. When your total income goes above £50,270 you pay a higher rate of tax e.g. 33.75% on dividends. You could also lose entitlement to certain benefits and allowances e.g. child benefit, tax free savings allowance is reduced from £1,000 to £500.

Sometimes you may want to take a large amount out of the business, for example for a large purchase. One option could be to vote a dividend. The highest tax rate on dividends is 39.35% (once total income exceeds £150,000 or £125,140 from April 2023), which whilst lower than the tax rate on a salary or bonus, is still relatively high.

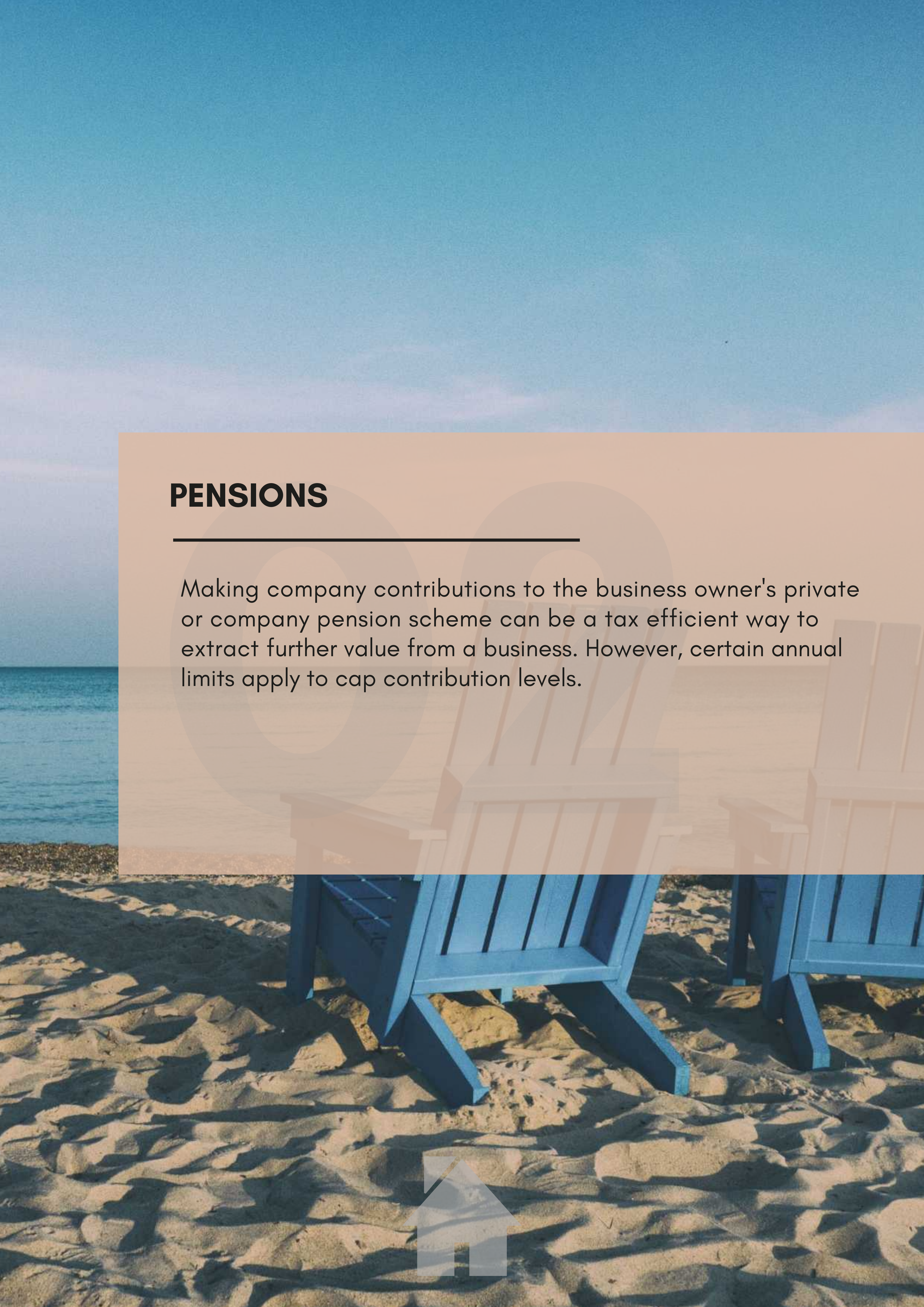
So, before voting a dividend, alternative tax planning options, of which there are many, should be considered with a tax specialist. For example, if a business owner wants to extract funds to invest in property, buy a car, give money to family or start a new business venture, there may be better ways to structure it from a goal, commercial and tax perspective.

Examples of options in this regard are (1) larger pension contri-butions (e.g. to fund a commercial property acquisition), and (2) family investment companies where the income and gains from the investments can be spread among family members.

GIVING SHARES TO FAMILY MEMBERS

If you receive dividends from the company, you should consider giving some shares to your spouse / civil partner if they pay tax at a lower rate than you. This means they will be able to use the £2,000 (£1,000 from April 2023 and £500 from April 2024) tax free allowance, and any other lower rate bands than yours.

Away from your spouse, you could also give shares to children (over 18) or other family members, but the capital gains tax position would need to be considered before doing this.



PENSIONS

Making company contributions to the business owner's private or company pension scheme can be a tax efficient way to extract further value from a business. However, certain annual limits apply to cap contribution levels.

REGISTERED PENSION SCHEMES

It's important to consider the lifestyle that you want when you stop running your business. What level of comfort do you require? What value of assets do you need to accumulate and what level of income do you want?

These are important questions that deserve consideration as part of an overall strategy. Carrying out a full individual and corporate tax diagnostic is essential to ensure these issues are considered as a collective e.g. building the value of your business, building your personal wealth, structuring all your affairs with long term goals in mind.

Here we are only focusing on pensions through the lens of maximising value that you can extract from your business.

Once you have established the amount you can extract from the business using the methods detailed above, you should then identify a surplus that can be used towards retirement provision.

Pensions can be a very tax efficient way to put money aside as you pay no income tax or national insurance when the money is paid in (subject to the limits detailed below). You also get a corporation tax deduction on the money paid in.

Continued...

REGISTERED PENSION SCHEMES

Income or capital gains generated from funds or assets within the pension are not taxed.

The fund can be accessed tax efficiently from age 55.

On withdrawal, a lump sum of up to 25% of the fund can be accessed tax free. Withdrawal of the remainder is taxed but can be spread across multiple tax years, making the most of the personal allowances and tax rates.

HOW MUCH CAN BE PAID IN?

The maximum annual amount that can be contributed – with no income tax or national insurance, but a full corporation tax deduction – is £40,000. The annual allowance applies across all pension schemes – it is not a 'per scheme' allowance.

If you earn over £240,000, you are likely to have a restricted annual allowance. The allowance is reduced by £1 for every £2 in annual earnings above this figure, with the minimum allowance set at £4,000. However, if you earn over £312,000, no annual allowance is available. You will be charged at your rate of tax for these pension contributions.

Where this maximum is unused in a particular tax year, the balance may be carried forward by up to three years and added to the annual allowance for the relevant year.

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REGISTERED PENSION SCHEMES

As an example, if you have not previously contributed, the business could put up to £160,000 as a one off contribution, receiving a full corporation tax deduction and with no income tax or national insurance.

The amount you can pay in is not limited to what you earn – for example even if your salary is £8,840, the business could put £40,000 into your pension, or up to £160k if the 'carry forward' option is available. This is provided you were a member of a registered pension scheme in those previous years. If you contribute to your pension personally from your gross pay, your tax relief is limited to how much you earnt that particular year.

If you contribute in excess of your annual allowance or accumulated annual allowances if you are carrying them forward, you will trigger a tax charge called the annual allowance charge. It is added to your taxable income and taxed at your rate of tax (20, 40 or 45%). It is effectively reclaiming the tax benefit incurred on the excess contribution. If the charge is over £2k, you can speak to your pension provider to see if the pension can pay the charge from the fund. The company on the other hand is not subject to any penalties and can still claim a corporation tax deduction on the full amount.

LOANS

There are various scenarios to consider when it comes to loans – from money already lent to the company to having money available to loan to the company.

Making loans to the company can be a tax efficient investment where a commercial rate of interest can be paid to the business owner. Whilst employee loans under £10k can be an effective way to motivate and retain key members of the team.

LOANING MONEY TO THE BUSINESS & EMPLOYEE LOANS

You may have historically lent money to the company or have funds available to lend to the company. Or alternatively the company may have money it can lend to you or the employees. Each of these scenarios is considered below.

SCENARIO 1:

You have already lent money to the company

In this instance, generally the company should be paying you interest because:

- It makes commercial and legal sense to protect your investment
- The income will be ‘savings income’ which, if you haven’t used your savings allowance, you can receive up to £1k tax free per year

In many instances, business owners have lent money to the company in years gone by and don’t realise that the loan can be taken back out of the company tax free at a future point. This is important to remember, as it can form part of your value extraction strategy once funds are available in the company to repay your loan with no tax consequences.

Continued...

LOANS

SCENARIO 2:

You have funds available to lend to the company

Before deciding whether to lend to the company, you need to also consider the commercial risk factors and seek independent financial advice e.g. if you make an unsecured loan, the funds are available to the company and could be used to pay other creditors in the event of trading difficulties.

Generally speaking, if you have savings as cash, it will be earning very little interest. So it can make sense to instead lend some money to the company because:

- The company will benefit from the additional cashflow.
- The interest you receive will be tax free up to your 'savings allowance' of up to £1k. In a lot of circumstances, the tax saving made will exceed the total amount of interest you would have earned by investing the money elsewhere.

The specific tax savings depend on your overall position, but at worst it represents the ability to get an additional amount from the company tax free.

Continued...

LOANS

OTHER CONSIDERATIONS AND PLANNING POINTS

Where payments of interest represent 'yearly interest' there is a requirement for the company to withhold 20% of each interest payment and pay it to HMRC (via a quarterly CT61 return). This can increase the administrative burden. If interest payments are not 'yearly interest' then generally withholding tax does not apply. An example of loan interest that is not 'yearly interest' is where the loan term does not exceed 12 months.

The rate of interest charged has to be commercially justifiable (for example by reference to an unsecured loan from a third party) and generally can be anywhere between 5% and 15%.

It is very important to properly document the arrangement to reduce risk of any future dispute, whether with the company or HMRC. Provided the terms are legally documented, this often represents a low risk method of extracting funds from the company tax efficiently.

Continued...

LOANS

SCENARIO 3:

The company has funds to lend to you or your employees

If the company has spare cashflow, it can be a good way to incentivise you and your employees by offering up to £10k loans, interest free. This provides a good benefit as the employee can invest the funds or help them with cashflow to purchase something. It can also act as a good retention tool as employees will have to repay the loan if they leave.

BUSINESS ASSETS

Business owners who allow their company to use personal assets should consider charging rent for the use. This is another effective way to extract funds from a business tax free.

Certain business owned assets can be used by a business owner without any tax implications provided private use is minimal.

RENT - COMPANY USE OF PERSONAL ASSETS

The company may be using assets that are owned by you or you are considering acquiring a property to be rented to the company.

This can be commercially attractive in some circumstances, examples of which are:

- Asset protection – keeping the building and fixtures and fittings out of company ownership
- Your pension is maxed out either annually or lifetime allowance
- You don't want to commit to large pension contributions in the short term
- You are looking to buy a property personally and then rent to the company, and due to other factors (e.g. sharehold ing structure or lack of funds available in the company) it makes sense to buy the property personally
- Assets already in ownership e.g. commercial building or other assets, and don't want to transfer them to the company for commercial or tax reasons.

It can also be tax efficient to hold the asset personally and rent it to the company.

Continued...

RENT - COMPANY USE OF PERSONAL ASSETS

EXAMPLE IN THE SCENARIO WHERE DIVIDENDS ARE NOT POSSIBLE

Consider someone with a £50,000 salary, who owns a property personally that is used by the company.

The market value rent for the property is around £22,800.

- If the company paid £20,000 as a salary or a bonus, it would cost £22,760 (£20,000 plus employers' NIC) with a tax and NIC cost of £11,160 (1).

- If £22,760 was paid as rent, the tax cost would be £9,104 (2).

In this example, the saving in comparison to salary is £2,056.

NOTES

1. Income tax and NICs – based on NIC rates from 6th November 2022
2. Income tax but no NICs

If you sell the asset alongside the shares in the business at a future date, you would usually be able to claim Business Asset Disposal Relief to reduce the tax you pay to 10% of the gain.

Continued...

RENT - COMPANY USE OF PERSONAL ASSETS

Unfortunately, the payment of rent by the company can restrict the relief available when you sell the asset.

The relief is restricted by the percentage of market rent paid by the company. So, if the business pays full market rent, no relief is available.

Furthermore, Business Property Relief can be restricted, increasing potential exposure to inheritance tax. As the asset is owned by you, it will be in your estate when you pass away. Business assets owned by you personally only receive 50% relief, so the remainder is taxed at 40% if your estate exceeds the nil rate band (currently £325,000).

For both reliefs, specialist advice should be taken to ensure relief is maximised.

PERSONAL USE OF COMPANY ASSETS

If you are considering purchasing an asset that will have a business use, you should consider if you can pay for it via the company as an effective way to maximise the value you take out of your business.

Where appropriate the savings could include income tax, NIC, corporation tax and VAT.

Whilst a tablet/ iPad has the capability to make video and voice calls, it cannot be treated as a mobile phone and fall into the mobile phone exemption.

The asset must be bought and used primarily for business purposes. It will be taxable on you if there is significant personal use, little or no requirement for you to have an asset for your work or it is a reward for your employment.

In some cases, the personal use of the asset may be exempt despite the personal use exceeding the business use. This would only apply if the private use is secondary to the use for work purposes.

EXAMPLE

If your role requires you to use a laptop for most of the day, it will not be taxable if you use the laptop for personal use in the evenings or weekend.

Continued...

PERSONAL USE OF COMPANY ASSETS

Clearly your personal use would be insignificant to the business use.

Compare this to an individual who works in a trade like manufacturing and only needs a laptop for invoicing and timesheets but has some personal use of the laptop.

HMRC will allow personal use of the laptop provided you need the laptop to carry out the duties of the employment even if the amount of time spent on private use exceeds the business use. The laptop must be sufficient to carry out the invoicing and time sheets. You wouldn't be able to buy an expensive laptop which you want to use for your film editing hobby and claim it was for business purposes as you wouldn't need that spec of laptop to carry out your business duties.

EMPLOYEE BENEFITS

Normally, if a benefit is provided to you, it will be taxed in the same way as a salary. However, there are some exceptions to this rule – detailed below – which can result in significant cost savings, in the form of corporation tax, VAT, income tax and NIC.

For example, if a cost can be incurred by the business, the equivalent saving (ignoring VAT savings) on the monthly cost could be around:

- **25% if you take dividends and are a basic rate taxpayer**
- **45% if you take dividends and are a higher rate taxpayer**
- **40% if you are salaried and are a basic rate payer**
- **49% if you are salaried and are a higher rate taxpayer**

Given the savings, consideration should be given to the following costs and whether they can be incurred by the business rather than personally.

READ THE NEXT 7 SECTIONS FOR EMPLOYEE BENEFITS

LIFE INSURANCE

Relevant life assurance is very similar to a typical life insurance policy.

Policies usually pay out a sum to beneficiaries in the event the insured person (e.g. the business owner) dies.

Alongside the monthly tax cost savings, policies can also be written 'into trust' so that they are outside the scope of inheritance tax.

Obtaining cover for the wider workforce can also be a great way to retain employees.

PENSION ADVICE

If you need to seek pensions advice, it is tax free up to £500 in value if it is paid for by the business.

MOBILE PHONES

One mobile phone can be given to every employee in the business – including you and any family members that are employed – and there is no tax or NIC regardless of whether the phone is used for personal calls, messaging, etc.

It may also be attractive to employees to have a phone that is better than one they would otherwise have if they bought a phone personally.

It is also possible for the company to offer a second mobile phone to you and certain employees provided the phone has insignificant personal usage. In other words, the main reason for providing the second phone to you is for business purposes. This would allow employees who want separation of home and work matters to have 2 mobile phones.

A tablet which allows you access to make calls via Skype or FaceTime isn't deemed to be a mobile phone – it is treated as an employee use of a business asset.

ANYTHING EXCEPT CASH THAT COSTS LESS THAN £50

This is subject to specific restrictions detailed below, but in short you could buy anything via the business as a way to extract value – e.g. your favourite bottle of perfume/ aftershave, an Amazon gift card to buy something for your house or take your family for a meal whilst on holiday, provided it costs less than £50. This is an effective way to extract value from your business.

For you as a director, the total amount that can be spent per year on items like this is £300. For other employees, the amount is uncapped.

You can be given up to £300 in "gifts" annually, provided certain conditions are met:

1. Each gift value must not exceed £50
2. Each gift must not be cash or something that can be turned into cash. This means things like Amazon vouchers or supermarket vouchers are fine, provided they can't be traded in for cash.
3. It must not be part of their contract or salary.
4. It must not be in recognition of services (i.e. performance related).

They are also known as "Trivial Benefits".

Continued...

ANYTHING EXCEPT CASH THAT COSTS LESS THAN £50

If family members are employed by the company, they can also be given up to £300 in gifts in the same way. If family members who are not employed are given gifts, this counts towards the £300 cap.

For other employees, the gift amount is uncapped. Giving benefits like this to staff can be massively rewarding for them, helping to achieve motivated staff and high retention levels.

STAFF FUNCTIONS

Provided the cost per attendee is less than £150, an event for staff – for example at Christmas – is not taxable on you or your employees.

As an example, a business with 5 employees could each take a guest to an event. Provided the total cost is less than £1,500 it falls within the exemption detailed above.

This exemption can be aggregated over the year, so for example you could have 2 events costing £75 per head, and it would still be tax free.

EMPLOYEE CAR PARKING

Paying for a car parking space for yourself or an employee can be very beneficial for city centre businesses where the cost of parking can be high. The car park space must be at or near to your office to be tax free.

VAT registered businesses can also reclaim the VAT element of the cost, giving a further saving.

This can also be a very efficient way to reward employees who need to drive into a place of work and have to park in an expensive car park.

TRAINING

Work training can cover a wide range of areas that are wholly for business purposes, such as professional development and health and safety.

Instead of incurring the cost personally, the business can pay for your training as a tax-free benefit.

OTHER TAX EFFICIENT BENEFITS

Outside of the ‘tax free’ benefits listed above, other benefits that can be provided by a company to you and your employees in a tax efficient way are detailed in the next four sections.

LUNCHES & SNACKS

Provided all staff are offered the option, providing lunches to staff at the business premises is tax free for the employees, and the business can claim corporation tax relief and recover VAT (where relevant) on the costs.

The conditions to qualify are that the lunches must be available to all employees, be 'reasonable', and provided at the business premises (e.g. canteen or kitchen area).

CHILDCARE SUPPORT

There are three potential ways to help fund childcare in a tax efficient way:

Tax free childcare is a scheme that allows you to save up to 20% on childcare costs. The government will contribute up to £2,000 per year for each child in childcare. So in effect this gives a 20% discount on childcare costs up to £2,000 per child per year.

Childcare vouchers – these are now only available if you signed up to a scheme (which is still operated by the company) before 4 October 2018.

The scheme was more tax efficient than the new **tax free** childcare, so if you are eligible this should be considered too. This scheme is operated via 'salary sacrifice' and so provides an equivalent benefit to the 'tax free' benefits listed above.

Workplace creches – whilst not practical for most businesses, a workplace creche can be provided to you and your employees with no tax or national insurance liability. So, if applicable, it is worth considering further.

BICYCLES & EQUIPMENT CYCLE TO WORK

Bicycles and equipment can be purchased under a 'salary sacrifice' scheme so that the cost of the bike and equipment comes out of pay before being taxed i.e. it offers equivalent savings to the 'tax free' benefits listed above. This has a tax and national insurance saving for the individual (up to 47% for the highest rate taxpayers) and also gives a national insurance saving to the company. This saving can also be passed on to you to make it even cheaper to get the bike (and equipment).

The amount that can be spent is now uncapped (compared to the previous £1,000 which applied to most businesses). So a top quality bike and equipment (helmet, gear, lights, etc.) can be bought with significant savings available.

The way the schemes work in practice is that there is an initial rental period (usually 12 – 24 months) after which you can hand the bike back, buy it at its current value, or continue to rent it from the cycle scheme provider at low cost. Choosing the last option is usually the most cost effective, meaning you can own the bike outright after 4 or so years.

An example of a cycle scheme provider and videos on how it works can be found here:

https://www.cyclescheme.co.uk/

ONSITE GYMS & SPORTING FACILITIES

As a way to promote the health and wellbeing of you and your staff, you can offer access to sports or recreational facilities, or non-cash vouchers which can only be used to access those facilities as a benefit.

There is an exemption from tax if:

- the facilities are available to all employees
- it is not open to members of the general public
- the facilities are used wholly or mainly by employees, former employees or family members of those groups

If multiple businesses use one set of facilities, this does not trigger a benefit. This would apply to office gyms, shared gyms in communal office space and recreational facilities.

TAXABLE BENEFITS STILL WORTH CONSIDERING

It is also worth considering other benefits that can be offered to you and your employees. Whilst not 'tax free' or available as a 'salary sacrifice' scheme, they can have other benefits, such as:

1. You may get better rates or premiums for bulk buying for a number of individuals.

   Specific examples of the types of products worth considering are:

- Medical cover. This definitely meets all the benefits listed above.
- Many policies have discounted gym memberships, offers and promotions for mental and physical wellbeing.
- Some policies allow members to reclaim dentistry and optician costs. This can be hugely beneficial for you and your employees and in some cases may outweigh the tax cost of having the benefit.
- It is worth noting that medical insurance policies which cover only injuries or diseases that result from your work are tax free.
- If your medical insurance doesn't cover this, your business can pay for your medical treatment when you are working overseas.

Continued...

TAXABLE BENEFITS STILL WORTH CONSIDERING

2. Increased wellbeing and productivity of staff
3. Better quality products and rewards that employees would otherwise get if they had their own policy or didn't have a policy at all.
4. It's just a good employee perk!

- Policies can give quicker and no cost access to care in the event of illness or injury. Again this can be very valuable in giving you and your employees top quality support in times of need.
- Shareholder protection insurance. This type of policy will allow things like remaining shareholders to buy out the family of a deceased shareholder
- Critical illness cover or income protection insurance. Again, whilst taxable on you and your employees, it can be hugely incentivising for employees to have things like this covered by the company.

COMPANY CARS

In recent years, the tax on company cars has increased to the level where it is now not usually financially viable for the company or the user of the car. However, there is one main exception – electric cars.

Where company cars are provided for specific individuals, a taxable benefit will arise on you or your employees. This is based on a percentage of the list price of the vehicle, determined by its carbon dioxide emissions. The use of lower emissions vehicles can generate significant tax savings.

Fuel costs provided by the company will be subject to an additional benefit in kind charge unless the cost of fuel is in relation to journeys that are part of the employee's business duties, e.g. a service engineer travelling to an appointment.

Continued...

COMPANY CARS

ELECTRIC CARS

An electric car can mean a "pure-electric" car or a hybrid (part petrol/diesel and part electric). There are two key tax advantages available if the car meets the relevant conditions:

1. Low tax on the individual user.
2. If the business buys the car, 100% corporation tax relief is available in the year of purchase.

CHARGING ELECTRIC VEHICLES

The cost of charging electric vehicles at the place of employment is exempt from tax and NICs. It makes no difference who owns the car.

It is also possible for you to receive a tax-free benefit if a charging point is installed at your home provided you have a company car. It would be taxable if you had a charging point installed at home to charge your personal car which you used for business purposes.

RUNNING COSTS FOR COMPANY OWNED CAR

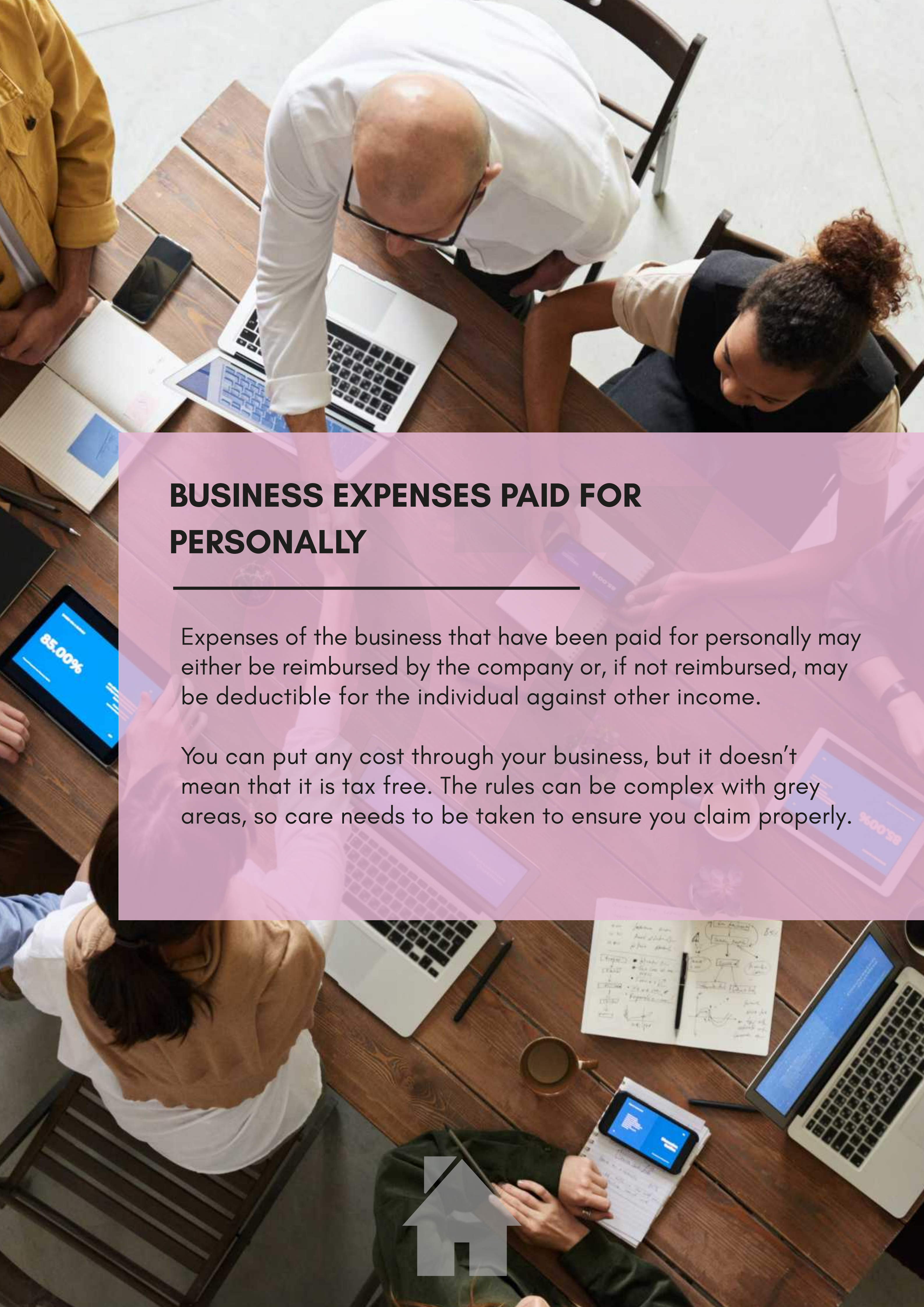
With the exception of fuel (which will result in an additional benefit in kind charge for non-business use), the benefit in kind charge covers all motor running costs, including costs such as servicing and insurance.

Where a vehicle is currently provided, but insurance is not, the company should consider providing insurance too - the increased cost will be deductible for corporation tax purposes, but no additional tax charge will arise on you.

ADDITIONAL ITEMS FOR COMPANY OWNED CARS

Ordinarily, car accessories are included in the value of the vehicle when calculating the company car tax charge. However, there are two company car accessories you could purchase via your business which are completely tax free.

1. Personalised number plates
2. Hand free kits and equipment – if you need a cradle for your mobile phone or a cable to charge your phone, it is possible to purchase them via your business.



BUSINESS EXPENSES PAID FOR PERSONALLY

Expenses of the business that have been paid for personally may either be reimbursed by the company or, if not reimbursed, may be deductible for the individual against other income.

You can put any cost through your business, but it doesn't mean that it is tax free. The rules can be complex with grey areas, so care needs to be taken to ensure you claim properly.

BUSINESS EXPENSES PAID FOR PERSONALLY

Where you incur expenses in the course of their employment:

- For the company, any cost incurred in reimbursing expenses will be deductible against corporation tax.
- For you or an employee, the position is often more complex, as explained below.

NON TAXABLE

Where you incur expenses "wholly, exclusively and necessarily" for the purpose of your employment, amounts received will be free from tax or NICs. Similarly, if the expense is not reimbursed, a tax and NIC refund can often be claimed (usually via self-assessment).

Continued...

BUSINESS EXPENSES PAID FOR PERSONALLY

The rules on relief can be restrictive. In particular, where expenses are partly for another job, or for personal reasons, relief may not be available. Whilst there may be grey areas, there are certain types of personal expenditure – such uniforms, protective clothing or business mileage – that can almost always be successfully claimed.

TAXABLE

If the expense is not wholly, exclusively and necessarily for the purpose of your employment, any reimbursement will give rise to income tax and NIC implications, as an employment benefit.

The specific tax implications will depend on a variety of factors, including, whether the expense relates to travel and subsistence (including mileage allowance), home working expenses, whether the expense is reimbursed or a bill is instead paid on your behalf, to name a few.

These costs could be added to your director's loan account to stop the benefit being taxable. However, you would need to repay this balance within 9 months of the company's accounting period to avoid a 33.75% tax charge (albeit reimbursable if you put the money back into the company later).

Read the next eight sections for guidance on business expenses paid for personally.

HOME WORKING EXPENSES

You and your employee may work regularly from home these days. This increases the cost of some home bills (e.g. heating, light, faster internet) and so HMRC allow an amount to be reimbursed to you that reflects the additional cost of working from home.

As a simple measure, paying yourself and employees, who regularly work from home under a formal arrangement, £6 a week or £26 a month requires no record keeping and the amount paid to you is tax free. If the cost of working from home is greater than £6 a week (£26 a month), then records need to be kept to prove the additional cost. Where this is done, again there should be no income tax or NICs on the additional payments. From April 2022, this can only be paid if you don’t have an office, there are no appropriate facilities available for the employee to perform their job on their employer's premises or the employee's job requires them to live far away from the office.

MILEAGE CLAIMS

Where you use your own car for business (excluding commuting to and from work), you can claim 45p for each business mile travelled up to 10,000 miles and 25p per mile thereafter, without income tax consequences.

An additional optional 5p per mile can be paid where you have "car pooled" with a fellow employee or director. Similarly, for motorcycles 24p per mile can be paid, and for bicycles 20p per mile can be paid, tax free.

The company can also claim a tax deduction for mileage payments paid to employees.

CONGESTION CHARGE - COMPANY CAR

If you incur the congestion charge whilst travelling to London using your company car, you can put the cost of the charge through the business.

BUSINESS TRAVEL

TRAVELLING TO AND FROM "THE OFFICE"

Ordinarily, you are unable to put the costs of commuting to and from the office through the business. This applies to the cost of petrol or public transport, as well as claiming back 45p per mile as detailed above.

So, can I claim for the costs of going to the office if I usually work from home or only go to the office on an infrequent basis?

Your business address is deemed to be your "office". It is your main place of business that you regularly or usually attend even if it is infrequently. If you choose to work at home and do not go into the office very often, this doesn't change the fact that you are commuting to your workplace when you do go into the office (provided that is the place you usually attend for all of your employment). There are some exceptions to this that you should be aware of:

LATE NIGHT WORKING COSTS

If you need to get a taxi home from the office as you have been working late (until at least 9pm), you can get the business to pay for the taxi to get home without any tax implications. This must be irregular; you are required to work late for a business reason and where the public transport has stopped or unreasonable to use it. This can be used up to 60 journeys per year and has no maximum amount per journey.

BUSINESS TRAVEL

FAILED CAR SHARE ARRANGEMENT

This also applies if car sharing arrangements fail after you have arrived at work due to unforeseen circumstances.

For example – if your lift home with another director or employee isn't possible as they have had to go home due to illness, this would also apply.

PUBLIC TRAVEL COSTS

You can claim for the cost of public transport costs if travelling for business such as client meetings or to attend an industry conference.

PRIVATE TRAVEL VERSUS PUBLIC TRANSPORT

As outlined above, you can claim for the private usage of your personal car if you travel for business.

It is a commercial decision as to whether you travel in your car or take public transport. Usually this will be considered based on cost, location, travel time, equipment taken and time of day.

Continued...

BUSINESS TRAVEL

As an example, it may be cheaper to take the train to Birmingham but it is necessary to take the car instead as you are required to take some equipment with you and the combined cost of public transport and courier costs are more than the cost of claiming mileage back.

Another example may be that the location of the business meeting is in the middle of the countryside so public transport will be ruled out.

FIRST CLASS TRAVEL VERSUS STANDARD CLASS TRAVEL

Generally, the cost of the business travel will not normally have any bearing on whether or not tax relief can be claimed.

A claim for business class travel over standard class wouldn't be denied if it was necessary for the journey.

Here are some examples where first / business class travel is necessary:

- You were travelling with a client who is booked on first / business class travel
- You are travelling on a long journey, so you need more space for comfort – say to sleep whilst on the journey ahead of a meeting when you arrive at your destination

Continued...

BUSINESS TRAVEL

- You require privacy and space to carry out your work whilst using public transport – say you require a desk for your laptop and place for your files whilst working which is only possible in first class.

However, you are unable to claim where the arrangements are unusually lavish or to reward an employee as there is a question as to whether the expenditure is genuine business travel.

AIRPORT LOUNGES

Following the above points, an airport lounge could be claimed as a business expense if required for commercial purposes. An example could be that you need space and privacy to carry out your work whilst waiting for your flight

TAXI VERSUS PUBLICTRANSPORT

You could also claim for the cost of a taxi if you were unable to take public transport. This may be due to speed, time of the day, location or equipment taken.

There must be a commercial reason for claiming the taxi over public transport to claim the cost back.

For example, you couldn't claim the cost of taking a taxi for a 10-mile journey during the day which you could easily take a train instead and had no reason to take the taxi apart from the fact you prefer not to use a train.

Continued...

BUSINESS TRAVEL

However, you could claim a taxi to your hotel when arriving in London if you had a large suitcase containing clothing for a week of business meetings as it would be unsafe and impractical to use the tube.

PERSONAL ELEMENT

If your travel involves any personal element, it is still eligible if the purpose of the travel is for business and does not involve a detour.

For example, you travel to London for the day for a work conference and meet a friend for a coffee before you head home. You can still claim the cost of the train travel provided the reason to travel to London is for business.

Another example could be that you travel to London for a work conference on a Friday and decide to stay in London over the weekend as a holiday. You book your train ticket back home for the Sunday evening when your break ends.

This would be possible to claim the cost of travel as business provided the main reason for going to London was for the work conference. You wouldn't be able to claim any expenses for food or accommodation after the event finished.

Continued...

BUSINESS TRAVEL

TRAVEL TO A TEMPORARY WORKPLACE

You are unable to claim back the costs of commuting to your office. However, you can claim for travel to a workplace which you don't do go to regularly or for short periods of time.

An example may be that you are required to work at head office for occasional meetings or you need to work at another new office for a set period of time to get the office up and running.

If you are responsible for an area over which you perform duties, then the travel expenses for covering that area are allowable such as a regional director travelling to different business premises. The travel to various sites does not constitute ordinary commuting as none of the locations would be considered permanent places of work.

SUBSISTENCE & ENTERTAINING

SUBSISTENCE

If you are carrying out your director duties such as attending a client meeting or traveling for business, you can claim your meals and drinks back via expenses tax free provided receipts are retained.

Say you are attending a client meeting; you could claim back your lunch whilst in the city centre or claim back a coffee on your way to a supplier meeting. Another example is you might buy your evening meal at a service station on your way back from a client meeting as it will be too late to eat when you arrive home.

INCIDENTAL OVERNIGHT EXPENDITURE

If you are travelling on business and are required to stay overnight, you can claim £5 in the UK or £10 overseas per night for incidental travel costs without any receipts.

As an example, this may be a newspaper, refreshments from the mini bar, laundry, home phone calls, tip for a taxi driver or porter.

The limits must include VAT paid. If you exceed this limit per night, the whole amount becomes taxable as employment income rather than the excess over £5 or £10.

Continued...

SUBSISTENCE & ENTERTAINING

If you are away for an unbroken run of consecutive nights, you do not need to necessarily claim £5 per night. HMRC compare the total of the exemptions for each night against the total payment. Say you spend £25 on a 5-night business trip. One night you spent £7, one night you spent £3 and the other nights you spend £5, this would be allowable as it doesn't exceed £25 which it is the total limit for 5 nights away.

ENTERTAINING

When you are entertaining a client, your business can cover the cost of entertaining provided it is reasonable and for business purposes. This may include lunch or dinner, drinks including alcoholic or attendance of a sporting event such as a football or tennis match.

This may be to thank them for their business, to discuss a new deal or to promote a better working relationship.

You can also use this as a way of extract value personally from the business. You could take a customer to a restaurant you have always wanted to try or a sporting event for your favourite football team.

Continued...

SUBSISTENCE & ENTERTAINING

Unfortunately, the company is unable to claim client entertaining as an expense against their profits and no VAT can be reclaimed for these costs.

You may be considering paying for a corporate box at a football stadium or the like. The treatment of them is different depending on how you use them and who uses them.

If you take a client to the corporate box, the normal rules apply so the cost cannot be deducted from your business profits and no VAT can be recoverable. However, it wouldn't be a taxable benefit for you as a director as you are entertaining a client as part of your duties.

You could also consider taking a group of employees to the box to entertain a group of clients as this would be tax free provided it is required as part of their employment duties.

If you used the box to entertain your staff or you went to the box with a group of friends, it would be a taxable benefit on you and your employees. Income tax and national insurance would be payable on the benefit.

MUSIC, AUDIO BOOKS & AMAZON PRIME SUBSCRIPTIONS

If you are currently paying for a music, audio book or Amazon Prime subscription, you should consider putting the cost of these subscriptions through the business.

HMRC will only allow the business to claim a corporation tax deduction for these costs if they are only used for business purposes. It would also be tax free for you and your employees.

A key point to note is that you will be required to register for a Music Licence if you are playing music in your office even if it is on headphones. See here for more details.

Examples

You have a subscription to Audible which you use only to listen to books about your industry and books which cover business strategy, planning and other related content. You could claim this cost from the business.

You have a Spotify licence which you use to play music in the office and when staff are working from home.

Your team have put together playlists which reflect the business values. They listen to them at home and in the office to remind them of the business values and create unity.

MUSIC, AUDIO BOOKS & AMAZON PRIME SUBSCRIPTIONS

You could also claim this cost from the business.

You have an Amazon Prime account which you use to buy items for the business such as computer equipment, stationary etc.

You could also claim this cost from the business.

POINTS REWARDS CARDS

If you or an employee has a personal card that you use for business expenses, any points received from the reward card are not taxable on you. A good example of this is air miles cards where significant airmiles can be accumulated - leading to big discounts on flights.

Similarly, a company card that receives points (such as airmiles) can be used by the business owner to accumulate points and pay for flights without any tax or NIC on the individual.

For an example see:

https://www.americanexpress.com/uk/business/corporate-cards

SCHOOL & UNIVERSITIES FEES PLANNING

You may pay substantial amounts in education costs, in terms of school or university fees for your family. In the correct circumstances, this can represent an area where forward planning can help create significant tax savings.

When funding private education, you will expend significant amounts of income for the benefit of another individual, after it has been taxed on you. Where the income is instead taxable on those in education, the arrangement can be much more efficient. Substantial tax savings can arise, due to the personal allowance and basic rate band, which are typically unused by children in education.

However, where the beneficiaries are minors the gift must not be made by the parents, as it would be rendered ineffective for tax purposes under the "parental settlement rules". Instead the settlement should be made by grandparents / other family members.

TAX PLANNING

Suitable relatives will not always own income producing assets themselves. However, if they have sufficient wealth they could acquire suitable assets, such as property or shares.

Continued...

SCHOOL & UNIVERSITIES FEES PLANNING

Structuring the acquisition as an "income only" entitlement, for example, in another family member's business or investment portfolio, can be an effective way to reduce the cost.

Although gifts can often be made to the children outright, it is usually preferable to gift assets into a trust for educational purposes. This route would allow you to retain control as trustee (or via a letter of wishes), while the income tax advantages would still be available in the correct circumstances.