# RPJ Accountancy

## Year End Checklist for Companies

### 1. Dividends

Up to April 5, 2020 taxpayers can have £2,000 dividends tax-free from all companies that pay dividends (including their own personal companies).

Shareholders should ensure that they take their tax-free dividend allowance before 5th April 2020. For the next tax year (2020/21), the tax-free dividend allowance will remain at £2,000.

It is important to appreciate that this is not a blanket allowance. If a shareholder only has a minority shareholding in a family company, then the dividends must be paid according to their shareholding.

For example, Mrs A has a 75% shareholding and Mr A has a  25% shareholding, to maximise their tax-free allowance (assuming that the company has distributable reserves to cover the dividend payments), Mrs A could have £2,000 of dividends (representing her 75% holding) and thus Mr A could have £666.67 (being his 25% share).

What you cannot do is for one spouse to waive a dividend to give it to the other spouse, if this happens then the settlements legislation will trigger, and the "excess" dividend will boomerang back on the donor spouse.

You may need to alter your share structure with additional classes of shares to allow for more flexibility when distributing profits via dividends.

It is also important that the dividends are supported by proper dividend certificates, please ask us if you do not have a specimen.

### 2. Pension Contribution

Please remember to think about your personal pension contribution. These are generally more tax-efficient if they are made by the company, as they are an allowable deduction for the company and do not trigger a benefit in kind charge. This is especially true if you pay low salaries and extract profits by way of dividends.

If you are a higher rate taxpayer, it is generally true that the greater tax-efficiency is for the individual to make the contribution because of the higher rate tax relief that you get.

Speak to a Tax Advisor to ensure you choose the most effective route for your circumstances.

### 3. Benefits in Kind

There are some benefits that do not trigger benefit in kind tax charges. These include pension contributions made by the company (see above) and trivial benefits.

The trivial benefits rule allows an employer (this is wider than just companies) to give gifts that do not exceed £50 per gift (VAT inclusive) and for that gift not to trigger a tax charge on the employee.

For small companies (these are companies that are controlled by 5 or fewer director/shareholders and referred to as 'close companies') there is an additional spend limit of £300 per annum in total per director.

Other tax-free benefits include an annual medical check-up and the provision by the employer of one mobile phone per director/employee. It is important that there is a company contract and not the company reimbursing an employees' personal contract.

### 4. Charity Contributions

These are allowable in the company's books, but please note that personal contributions to charities will be covered by the gift-aid rules and allow for higher rate tax relief for higher rate taxpayers.

## 5. Tax-Free Savings Allowance

There are some tax-free savings allowances available which may be of some marginal interest to company directors and shareholders. The most important would be the Personal Savings Allowance (PSA) which is £1,000 for a basic taxpayer and £500 for a higher rate taxpayer (nothing for an additional rate taxpayer).

Practically, this means that if a director has made a loan to his or her company then that director can charge some interest at a reasonable rate of interest, but certainly no more than 8% per annum (the legal rate of interest used by solicitors) and this will be tax-free up to £1,000 per annum for a basic rate taxpayer.

## 6. Spousal Salaries

It is possible to pay spousal salaries, but they must be linked to the duties performed. Remember that if you pay below the Lower Earnings Limit of £118 per week, £6,136 (based on 2019/20 numbers), then the spouse will not be eligible for a Qualifying Year (QY) for state pension purposes.

It could be that a spouse has a QY from other activities, such as self-employment.

## 7. Next Year's Salaries

Personal allowance is expected to remain unchanged at £12,500 but the NIC primary and secondary thresholds are going up to £9,500.

If you pay a director's salary by reference to either of these thresholds, please note that the personal allowance salary is slightly more tax-efficient, but not by much and this assumes that the company will be eligible for the NIC Employment Allowance (which is not available for single director companies).

It is important to note that there is no right or wrong answer for salaries, it is a balancing act.

## 8. ISA Allowance

Don't forget you have an annual ISA allowance of £20k. You can choose to invest the full amount between different types of ISA providing you stay within the annual limit.

Drawing additional salary or dividends from your company just to deposit the funds into an ISA is not advisable if those funds will attract further tax. This is because the tax rate suffered, even in the basic rate band, is normally a lot higher than the expected return from a standard ISA investment.

## 9. Overdrawn Director's Accounts

Please remember that if a director has taken too much by way of loans from the company in a tax year and these cannot be covered by a dividend due to insufficient fund reserves, then if the loan is not paid back by 9 months of the year end, the company will have to pay a 'punishment tax' of 32.5% of the loan to HMRC, which will only be recoverable when the loan is repaid.

If you are using a blend of Salary and Dividends to remunerate yourself, you need to be very careful that your company is generating enough post tax profits to cover the dividend element. It's best to keep your monthly drawings low and balance at yearend with bonus dividend once you can be certain the company has the required reserves.

## 10. Capital Allowances

Don't forget that capital purchases of plant, machinery, fixtures, fittings, computers, etc can be covered by the 100% Annual Investment Allowance (AIA) of up to £1,000,000 per annum.

AIA has increased from £200,000 for 2018 to £1,000,000 from 2019 onwards. You just need to be careful as these allowances run calendar year not financial year.

**For more information please contact us:**

**e: info@rpjaccountancy.co.uk**

**t: 0800 061 2428**

**w: www.rpjaccountancy.co.uk**