



12 March 2009

## Credit Crunch Savings

### CREDIT CRUNCH TAX SAVING

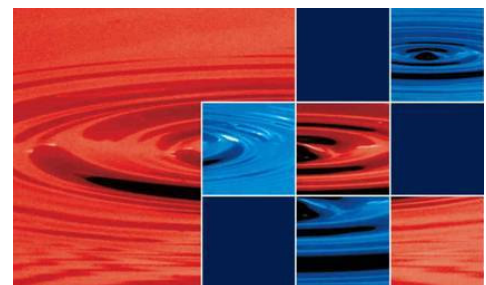
**During the economic downturn, there is a particular need to reduce costs, help cashflow and keep tax liabilities to a minimum. The following document outlines some ideas for doing this.**

#### Individuals

- use full personal allowances, basic rate tax bands and capital gains tax annual exemptions;
- employees opting for low CO<sub>2</sub> emission cars will suffer a very low taxable benefit in kind compared to standard CO<sub>2</sub> emission cars;
- employees may be able to make use of salary sacrifice arrangements, for example:
  - pension contributions;
  - childcare vouchers; or
  - car parking (in cars parks near the employee's workplace);
- given that share values in many companies have fallen in the current economic climate, there is a greater likelihood that the market price of share options issued to employees will fall below the exercise price (known as "underwater options"). Share options can be issued at lower prices and underwater options can be cancelled and replaced by new options with a lower exercise price;
- pension contributions to Small Self Administered Schemes ("SSASs") attract corporation tax relief and enable funds to be borrowed from the SSAS by the sponsoring employer;
- owner manager shareholders of limited companies can reduce their salary and increase dividends. The National Minimum Wage rules do not apply to directors without written contracts of employment,

and paying a salary of £5,435 (2008/09) preserves the National Insurance contribution record at no cost. Taking the rest as dividends is more tax efficient, although the company must have sufficient distributable reserves to pay the dividends;

- individuals who have lent money to their own companies can charge a realistic rate of interest. This is generally a more tax efficient method of profit extraction than taking dividends;
- maximise tax-free savings (e.g. Individual Savings Accounts "ISAs");
- claim tax repayments quickly and avoid penalties by filing tax returns on time. Businesses may be able to claim tax repayments before losses have been quantified;
- if you fear redundancy or the loss of your business, registering your entitlement to tax credits now could increase the amount of tax credits you could receive;
- you can rent a spare room in your house to a lodger and rental income of up to £4,250 per year is free of tax;
- low asset values mean it is easier to pass wealth on to the next generation because lower values means lower capital gains tax, and potentially lower inheritance tax;
- if you hold shares in an unquoted company which have become worthless you may be able to claim the loss against income tax;





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### Businesses

- improve your cashflow by paying pay as you earn (“PAYE”) electronically – ‘small employers’ can pay quarterly;
- you may be able to save payroll costs by using self-employed contractors or current staff could become effectively self employed through their own limited companies or limited liability partnerships (“LLPs”) [note that there is anti avoidance legislation in this area and therefore it is essential that professional advice is sought before implementing such an arrangement];
- consider using a LLP structure which includes a corporate member to maximise profit extraction whilst minimising tax and National Insurance (“NI”), especially on benefits on kinds such as cars;
- save costs by replacing a company car fleet with an employee car ownership scheme (“ECOS”);
- delay paying bonuses – they will still attract immediate corporation tax relief if paid within nine months of the year end;
- maximise your capital allowances (use the £50,000 annual investment allowance and 100% allowances on energy efficient plant and machinery);
- protect valuable assets by separating them from the trading operation;
- don’t forget additional corporate tax relief is available for:
  - research and development activities;
  - cleaning up polluted land (unless self-inflicted); and
  - shares acquired by employees;

- for companies marginally within the corporation tax quarterly instalments payments regime, review forecast corporation tax liabilities to determine whether quarterly payments will be required in future, thereby improving cashflow;
- if you cannot pay your tax liabilities contact the HMRC Business Payment Support Line (0845 302 1435) as soon as possible to determine whether your circumstances qualify;
- VAT – improve your cash flow by:
  - claiming under recovered VAT (going back to 31 March 1973) – claims must reach HMRC by 31 March 2009;
  - filing VAT returns online which allows VAT payments to be deferred for seven days past the usual payment date;
  - using ‘cash accounting’ (if taxable supplies are expected to be less than £1.35 million in the next year); or
  - forming a VAT group.

We note that the above are general ideas and may not be suitable for everyone. We would suggest that you discuss your own situation with a member of our tax department prior to implementing any of these.

