TAX PLANNING FOR COMPANIES & THEIR OWNERS

PUTTING IT THROUGH THE COMPANY

TAX Cafe®

Carl Bayley BSc FCA
Nick Braun PhD

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Putting It Through the Company

Tax Planning for Companies & Their Owners

By Carl Bayley BSc FCA

and

Nick Braun PhD

Important Legal Notices:

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About the Authors & Taxcafe

Carl Bayley is the author of a series of Taxcafe guides designed specifically for the layperson and the non-specialist. Carl's particular speciality is his ability to take the weird, complex and inexplicable world of taxation and set it out in the kind of clear, straightforward language taxpayers themselves can understand. As he often says himself, "My job is to translate 'tax' into English."

In addition to being a recognised author, Carl has often spoken on taxation on radio and television, including the BBC's It's Your Money programme and the Jeremy Vine Show on Radio 2.

A chartered accountant by training, Carl is a former chairman of the Tax Faculty of the Institute of Chartered Accountants in England and Wales. In June 2023, he stepped down after almost twenty years on the institute's governing council.

Nick Braun founded Taxcafe.co.uk in 1999 along with Aileen Smith. As the driving force behind the company, their aim is to provide affordable plain-English tax information for private individuals and investors, business owners, accountants and other advisers.

Since then Taxcafe has become one of the best-known tax publishers in the UK and has won several business awards.

Nick has been involved in the tax publishing world since 1989 as a writer, editor and publisher. He holds a doctorate in economics from the University of Glasgow, where he was awarded the prestigious William Glen Scholarship and later became a research fellow. Prior to that, he graduated with distinction from the University of South Africa, the country's oldest university, earning the highest results in economics in the university's history.

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Introduction

When we sat down to plan a new guide aimed at company owners, we discussed what it was people running a company most wanted to know. “Well,” I said, “what people usually ask me is what they can put through the company.”

That simple observation gave us the title for our new guide, and the broad scope of what we wanted to cover. ‘Putting It Through’ is about the question of what you can get the company to pay for. But it’s not a simple ‘yes you can’ or ‘no you can’t’, because within this one overarching question lie a number of others.

Yes, there is the basic question of whether the company can pay for it, but then we also need to look at whether the company will get Corporation Tax relief, and how much; whether it can recover VAT on its purchases; and whether the payment will have Income Tax or National Insurance consequences for the company owner themselves, or a National Insurance cost to the company.

When it comes to buying property, other long-term assets, or investments, we also need to think about the capital gains consequences when those assets, or the company’s shares, are sold, and the impact on the company owner’s Inheritance Tax burden.

We will look at all these issues and, while the original question, ‘Can I put it through the company?’ can nearly always be answered with, ‘Yes, you can if you want,’ that answer will often be followed by ‘but...’ and the question company owners really ought to be asking is, ‘***Should*** I put it through the company?’ That can sometimes be a much more difficult and complicated question: but it is the question we will be answering in this guide.

This guide isn’t generally about the simple, obvious stuff, like paying regular employee’s wages, or the electricity bill for the company’s premises. Yes, the company can pay those things, put them through its accounts and get Corporation Tax relief for the expense; and there will not usually be any tax consequences for the company owner. But most people know that already.

What we are more concerned with in this guide is the less obvious stuff, like paying wages to the company owner’s children, putting part of a director’s household costs through the company accounts, or dozens of other things where it is not immediately clear whether you should put it though the company, or what the tax consequences will be if you do.

In Chapter 1 we'll start by looking at some of the fabulous savings that may be available when you are able to put expenses through the company. We'll also look at what happens if you try to put the wrong thing through and how much it costs.

We then move onto the first major source of tax savings. In Chapter 2, we look at the general principles governing Corporation Tax relief for items you put through the company and cover a few quirky ideas like pantomime horses and Ferraris.

Chapter 3 moves onto the issue of recovering VAT on items put through the company. We look at some of the practicalities, potential savings and the detailed principles involved. 'Similar but different' probably sums up the contrast between Corporation Tax relief and VAT recovery and you need to know those all-important differences if you're going to get the best results.

In Chapter 4 we focus on director's expenses, all those costs you tend to incur when you're away from your workplace or through buying goods and services yourself personally. We look at how and when you can recover these costs from the company, what's included, and what to do if you get it wrong. We will also see the value of putting it through the company when you can: even when there's no Corporation Tax relief or VAT recovery.

Chapter 5 expands on this last idea by giving you a thorough understanding of how much Income Tax you can save by putting expenses through the company instead of having to pay them yourself out of after-tax income. In this chapter, we also look at the benefits of putting your own income through the company: salary, dividends, and interest. There are important savings to be made as sometimes these items can be paid to you at no tax cost, or even with an overall tax saving.

In Chapter 6, we start to look at some more specific areas, with a focus on the tax costs involved in employing people and how to minimise them, or even, in some cases, how to maximise the savings. We'll also see how employing your children could keep you, them, and the company accountant all happy at the same time.

As well as wages and salaries, there are a host of useful tax-efficient benefits that can help to both keep staff happy and keep your payroll costs down, and we look at these in Chapter 7. Often you can benefit too. Everything from mobile phones to buying pizzas for your staff, or sending the receptionist to the local cafe so the rest of you can have a tax-free lunch on the company, is covered.

Next, in Chapter 8, we look at tax relief for capital expenditure on machinery, equipment, computers, furniture… you name it. There is a dazzling array of allowances available to companies at present, and we navigate you through the maze to show you how to get the best tax savings for your company.

Chapter 9 looks at motoring and shows you what you can claim back on vehicles you put through the company, and what it costs in benefit in kind charges. In some cases, the overall cost of a company vehicle in tax terms can be horrendous, but in other cases the savings are astounding. Plus, there are details on exactly what you and your employees can claim back from the company and how to get the best tax relief for motoring expenses.

We move on to property in Chapter 10 with a detailed examination of some critical issues like whether to rent or buy, whether to hold the company premises personally yourself, and what you can claim if you're working from home. We also look at the property running costs you can put through the company and what tax relief is available for property expenditure like fixtures and fittings, renovations, conversions, and improvements.

In Chapter 11 we catch up with a few last, but still really important, items that you can put through the company, including arguably one of the best tax-saving strategies for small company owners: pension contributions.

Lastly, Chapter 12 covers the new Corporation Tax regime applying since April 2023 and explains why, for many small companies, putting expenses through the company now saves even more tax than before. This final chapter also includes detailed guidance on the costs and benefits of forming additional companies, deferring or accelerating tax-deductible spending, and other ways to get the best out of the Corporation Tax regime.

Once you've been through the whole guide, you should be fully armed with the information you need to know what you can put through the company and to do so with confidence. In the end, we hope you can do what we start with in our very first section: Win Win Win!

Scope of this Guide

This guide covers UK tax issues for UK resident companies and their owners. Unless specifically stated to the contrary, it is assumed company owners are individuals and are:

i) UK resident for tax purposes
ii) Not subject to the 'off payroll working' rules (sometimes known as 'IR35')
iii) Not subject to the Child Benefit Charge
iv) Not claiming the marriage allowance
v) Not Scottish taxpayers

Scottish taxpayers pay Income Tax at different rates. However, this will have little impact on the issues discussed in this guide as this does not affect Corporation Tax, VAT, National Insurance, or Income Tax on dividend income.

Additional reliefs available to companies operating within designated Freeports, Investment Zones, or Enterprise Zones are beyond the scope of this guide. By exception, such reliefs may occasionally be mentioned, but our coverage of these issues is by no means meant to be comprehensive.

Non-tax factors affecting the decision whether to put an expense through the company are generally beyond the scope of this guide, although we will sometimes mention them where relevant, including the important issue discussed in Section 1.5.

The reader must also bear in mind the general nature of this guide. Individual circumstances vary and the tax implications of an individual, company, or other entity's actions will vary with them. For this reason, it is always vital to get professional advice before undertaking any tax planning or other transactions that may have tax implications. The authors and Taxcafe UK Limited cannot accept any responsibility for any loss that may arise as a consequence of any action, or any decision to refrain from action, taken as a result of reading this guide.

Unless stated to the contrary, it is assumed throughout this guide that company owners extracting funds from their company have already paid themselves sufficient salary and dividends to fully utilise their personal allowance and dividend allowance for the relevant tax year.

Tax Years, Financial Years, and Accounting Periods

Income Tax, National Insurance, and most other personal taxes operate by reference to the tax year ending on 5th April. In this edition, unless stated to the contrary, we will be using the tax rates and allowances for the 2025/26 tax year, ending on 5th April 2026. For further details, see Appendix A.

Corporation Tax rates are set for Financial Years ending on 31st March. For the majority of this edition we will be using the rates for the 2025 Financial Year, ending on 31st March 2026, as detailed in Section 2.1. A company's Corporation Tax liability is, however, calculated for its own accounting period, which may end on any calendar date, usually the end of a calendar month. This means many company accounting periods span two Financial Years. Often this makes no practical difference, as Corporation Tax rates do not change every year. We will take a detailed look at the Corporation Tax regime in Chapter 12.

Terminology and Abbreviations

In this guide a spouse includes a civil partner, but only includes spouses who are legally married (or legally registered civil partners).

Receipts, invoices, etc, are often important for evidencing business spending. Electronic or paper documents are both equally valid for this purpose, even if we do not always explicitly mention it.

We generally like to avoid abbreviations at Taxcafe, as we hate jargon. We will, however, adopt a few that are in common usage or will save you having to read the same phrase over and over again, including:

- BADR Business Asset Disposal Relief
- CGT Capital Gains Tax
- CT Corporation Tax
- HMRC HM Revenue and Customs
- NI National Insurance
- SBA Structures and Buildings Allowance
- SDLT Stamp Duty Land Tax
- VAT Value Added Tax

Chapter 1

Why Put It Through the Company?

1.1 WIN WIN WIN!

If you are running any kind of business through a company, it generally makes sense to put as many expenses through the company as you can. There are several potential benefits, including:

- Corporation Tax (CT) relief
- VAT recovery
- The expense does not need to be paid out of your own after-tax income

Where all three of these benefits apply, it truly is a 'win win win', and the potential savings are phenomenal.

Example
Bryce is the owner and director of MacFinnan Ltd, a VAT-registered company that faces a marginal CT rate of 26.5% (see Section 2.1). He is a higher rate taxpayer, having already taken a salary of £12,570 plus dividends of £50,000 out of the company this tax year.

Bryce now wants to buy a new computer. He will use it at home, but he will use it exclusively for business purposes. He's giving his old computer to the kids on condition they don't touch the new one.

The new computer will cost £2,500 plus VAT at 20%, a total of £3,000. If Bryce wants to make this purchase personally, he will need to take a further dividend of £4,528 out of the company so that, after paying Income Tax at 33.75%, or £1,528, he will be left with the net £3,000 he needs. So, in effect, the total cost is £4,528.

On the other hand, if the company buys the computer, the first thing it will do is recover £500 in VAT, leaving a net cost of £2,500, on which it can claim the 100% annual investment allowance (see Chapter 8). The company will thus obtain CT relief of £663 (£2,500 x 26.5%) meaning the net, after tax, cost of the computer is now just £1,837.

A cost of £1,837, instead of £4,528, the difference is astounding! That's a saving of £2,691, which is more than the actual net (before VAT) price of the computer, and it's made up as follows:

Income Tax avoided	£1,528
VAT recovered	£500
Corporation Tax relief	£663
Total	£2,691

As we can see, by far the largest part of this saving is the Income Tax Bryce has avoided by getting the company to buy the computer. This means that, while the other savings are important, it is the simple fact that the company has borne the cost that produces the greatest benefit. We will see this principle in action many times throughout this guide.

Bryce's position is fairly typical for a small company owner, but the amount of Income Tax avoided by getting the company to pay will vary from one person to another, so we will take a more detailed look at this element of the savings arising in Section 5.1.

At this stage you may be tempted to think it might be a good idea to put absolutely everything through the company, but that's not the case and, in Section 1.3 we will look at some of the potential pitfalls to be wary of, as well as the potential cost of putting the wrong thing through the company.

In Bryce's case, there was no benefit in kind charge because he fell within the exemption for home office equipment (Section 7.11).

Bryce's example also demonstrates a simple, but important principle regarding the interaction between VAT and CT. Where the company recovers the VAT on goods or services, it only claims CT relief on the net cost before VAT (£2,500 in this example, rather than the gross cost including VAT of £3,000). Hopefully this is a fairly obvious point, but we will look at it in more detail in Section 3.8.

In many cases, all the benefits enjoyed by Bryce will apply where an expense is put through the company. In other cases, it may only be one or two of them. Nonetheless, as we will see later, it is often still worth putting the expense through the company.

1.2 WHAT DOES 'PUTTING IT THROUGH' MEAN?

Putting something through the company ultimately means the company is bearing the cost, assuming the liability, or recognising the expenditure in its accounts.

The exact way this is done can be important for a number of issues including Income Tax and National Insurance on any potential benefit in kind, and VAT recovery. The key point in many cases is whether the company or the director incurred the liability in the first place. Generally (though not always) this in turn depends on who the bill was issued to.

However, subject to these points, an expense can be put through the company in a number of ways, including:

- The company pays the expense
- The director pays the expense and the company reimburses them in cash
- The director pays the expense and the company reimburses them via a credit posted to their director's loan account (Section 5.5)
- The company recognises the expense in its accounts and pays the director in cash
- The company recognises the expense in its accounts and pays the director via a credit posted to their director's loan account

Not all of these methods are appropriate in all cases, but we will see examples of each of them in this guide.

1.3 IS IT ALWAYS A GOOD IDEA?

No, not always: there are occasions when putting something through the company can backfire. This can happen for a number of reasons, including long-term issues like future capital gains on property and other assets, and the eventual impact on your Inheritance Tax burden. We will look at these issues in Chapter 10.

But the main pitfall to watch out for is the risk of creating a taxable benefit in kind. You could actually put nearly anything you like through the company, but if it creates a taxable benefit in kind, it will often end up costing you more than simply paying the expense yourself.

Example

Lucinda decides to go on a world cruise. The ticket costs £8,000 and she gets her company to pay for it. It's purely a holiday; there is absolutely no business purpose behind the expenditure. Hence, it must be taxed as a benefit in kind. Lucinda has already taken a salary equal to her personal allowance, plus sufficient dividends to make her a higher rate taxpayer this year, so the benefit in kind will cost £3,600 in additional Income Tax.

(The benefit itself is taxed at 20%, costing £1,600, but it also means a further £8,000 of Lucinda's dividends are taxed at 33.75% instead of 8.75%, increasing the tax on her existing dividend income by an additional £2,000: 25% x £8,000.)

The company will suffer employer's National Insurance at 15% on the benefit, costing a further £1,200, and bringing its total costs to £9,200 (£8,000 + £1,200).

To pay the extra Income Tax caused by her benefit in kind, Lucinda also has to take additional dividends of £5,434. She needs this much so that after paying Income Tax at 33.75% on ***these*** *dividends (£1,834), she is left with the £3,600 she needs to pay the tax on her benefit in kind.*

The only bit of good news in all this is that the company will get CT relief on the cost of the cruise and the National Insurance it has suffered, generating a potential saving of up to £2,438 (£9,200 x 26.5%).

Nonetheless, taking everything into account, the cost of the cruise can be summarised as follows:

Ticket price	*£8,000*
Employer's National Insurance	*£1,200*
Corporation Tax relief	*(£2,438)*
Income Tax on benefit in kind	*£1,600*
Increased tax on existing income	*£2,000*
Income Tax on additional dividends	*£1,834*
Total cost	*£12,196*

Instead of facing all this grief, Lucinda could simply have taken a dividend of £12,075 out of the company, paid the Income Tax arising at 33.75% (£4,075) and been left with the £8,000 she needed to pay for the cruise. In short, the cruise would have cost £12,075 instead of £12,196.

Admittedly, the cost is not much greater in this case, but it is more, and there is a lot of extra admin involved. And it could be worse. I made a few assumptions here that tipped the balance in Lucinda's favour, but they would not always be guaranteed in a case like this.

Firstly, I assumed the benefit in kind did not attract employee's National Insurance. If it had, this would have led to an additional National Insurance cost of £640 (£8,000 x 8%) plus a further £326 in Income Tax on the extra £966 of dividends Lucinda would have needed to take out of the company as a result.

For details of how and when you can avoid employee's National Insurance on benefits in kind, see Section 7.33.

Secondly, I assumed the cost of the cruise and related employer's National Insurance would attract CT relief. This was because I assumed the 'employee benefit override' discussed in Section 2.2 would apply in this case. But this is not guaranteed and this issue is discussed further in Section 2.2.

Thirdly, I applied the maximum possible rate of CT relief (26.5%). But relief may only have been obtained at 25%, or even just 19%, meaning the overall net cost of the cruise would be higher, even when CT relief is available. (See Section 2.1 for details of CT rates.)

Furthermore, if you think there may have been a VAT advantage in putting the cost of the cruise through the company, think again. There are a number of reasons why that wouldn't help in a case like this. We'll look at the main one in Section 3.5.

Hence, as we can see, putting the wrong thing through the company can prove extremely costly. We will see more examples of how this can happen, and how you can mitigate the position if it does, in Section 4.3.

Generally, getting the company to pay for something that will form a taxable benefit in kind for the company owner is a bad idea. But not all benefits provided to directors will have such disastrous consequences and some benefits can be worthwhile. We will look at this area of tax planning in Chapter 7.

1.4 WHO ARE YOU TO DECIDE?

One really important thing you have to understand about owning a company is that you and the company are separate legal entities. The company is not simply an extension of you. In law, it is a separate legal person, albeit an artificial one. This distinction is especially critical when we begin to consider payments from the company to its owners.

You own a company by owning shares in that company, i.e. by being a shareholder. Company share structures can be extremely complex, with multiple classes of shares, some having long, complicated names like 'Class A Redeemable Preference Shares'.

However, the majority of small private companies have a single class of shares known as 'Ordinary Shares'. In these simple cases, anyone who owns more than 50% of the shares controls the company. In this guide, we will refer to such a person as the company owner.

You may also control a company if you, together with connected persons, own more than 50% of the ordinary shares. Connected persons include your spouse, children, and certain other close relatives (see Appendix B for details).

Most small private company owners are also directors of their company and manage the company's affairs on a day-to-day basis. These company owners are often referred to as 'owner/managers', 'owner/directors', or 'shareholder/directors', as if this were a single role. For most practical purposes, this is a reasonable approach. However, when it comes to deducting expenses for tax purposes, it remains important to remember, as an owner/director or shareholder/director you have two distinctly different roles:

- As a shareholder, you own the company
- As a director, you run the company on behalf of the owners and, most critically, for the purposes of this guide, you are an employee of the company

It is your role as a director that gives you the ability to put expenses you incur personally through the company: but only if you meet the relevant criteria. This ability to deduct personal expenditure will be a major focus of this guide, beginning in Chapter 4, where we will look at the basic principles governing directors' expenses.

Sometimes an individual who controls a company on a day-to-day basis is not formally appointed as a director. Such an individual is known as a 'shadow director'. The principles covered in Chapter 4 apply equally to such a person.

Directors' expenses can effectively be regarded as a sub-category of company expenses. Hence, before we look at directors' expenses, we need to look at the principles governing the deductibility of company expenses. In Chapter 2, we will look at deductions for CT purposes; in Chapter 3, we will consider VAT.

1.5 NON-TAX FACTORS

There are often non-tax factors to consider when deciding whether to put something through your company. These are generally beyond the scope of this guide, but one thing we thought worth mentioning is consumer rights. The Consumer Rights Act 2015 gives individuals the right to ask for a full refund within 30 days of buying a product that turns out to be faulty. This includes major items like cars (new or used) but the protection only extends to individuals, not companies.

It may be possible to change the terms of a purchase contract to include the same protection as the Consumer Rights Act, although we suspect many sellers (e.g. car dealers) may not be prepared to do this.

So, when buying through the company, it's *caveat emptor*: buyer beware!

1.6 A QUICK NOTE ON FURNISHED HOLIDAY LETS

Prior to April 2025, furnished holiday lets meeting specific criteria enjoyed a special, beneficial tax regime. This special regime impacted the CT treatment of furnished holiday letting businesses run by a company, although only to a limited extent. The main point, as we shall see in Section 10.5, being that capital allowances are available on furniture, equipment, and other qualifying assets within a dwelling qualifying as a furnished holiday let: *but only where the expenditure was incurred before 1st April 2025*.

The regime had a more significant impact on the *owners* of companies carrying on a furnished holiday letting business, as it could affect the Capital Gains Tax (CGT) treatment of their company shares, or a property they hold personally used in the company's business.

This beneficial tax regime has been abolished from 6th April 2025 for Income Tax and CGT purposes, and from 1st April 2025 for CT purposes although it could, of course, still affect companies with accounting periods starting before 1st April 2025.

Transitional rules mean some CGT reliefs may still be available for owners of companies formerly carrying on a furnished holiday letting business on a disposal of their shares, or a property held personally and used in that business. These are beyond the scope of this guide.

For full details of the changes, including the transitional rules, see the Taxcafe guide *Furnished Holiday Lets: Big Tax Changes Ahead.*