TAX PLANNING FOR COMPANIES & THEIR OWNERS

PUTTING IT THROUGH THE COMPANY

TAX Cafe®

Carl Bayley BSc FCA
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Putting It Through the Company

Tax Planning for Companies & Their Owners

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and

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Important Legal Notices:

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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, ultimately, the impact on the company owner's Inheritance Tax burden.

We will look at all these issues in this guide 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 with 'But...' and the question company owners should really be asking is, '***Should*** I put it through the company?' That can sometimes (though not always) 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 when they work from home, 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 in your company, and how to minimise them or, in some cases, how to maximise the savings. As well as wages and salaries, there are a host of useful tax-efficient benefits to consider that can help to

both keep staff happy and keep your payroll costs down. And, very often, you can benefit too. Everything from employing your own children 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 7, 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 the moment and we navigate you through the maze to show you how to get the best tax savings for your company.

Chapter 8 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 9 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 fixture and fittings, renovations, conversions and improvements.

In Chapter 10 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.

Chapter 11 covers the forthcoming changes to the Corporation Tax regime and why, for many small companies, putting expenses through the company is going to save even more tax in the near future. Lastly, we finish off in Chapter 12 with a few other important issues you may need to be aware of.

Once you've been through the whole guide, you should be fully armed with all the knowledge 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!

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 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. He is a higher rate taxpayer, having already taken a salary of £11,908 plus dividends of £50,000 out of the company this tax year. (For reasons we will explain in Section 5.2, he made sure not to take more than £9,880 of his salary between 6th April and 5th July 2022.)

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 130% super-deduction (see Chapter 7). The company will thus obtain Corporation Tax relief of £618 (£2,500 x 130% x 19%) meaning the net, after tax, cost of the computer is now just £1,882.

A cost of £1,882 instead of £4,528, the difference is astounding!

That's a saving of £2,646, 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	£618
Total	£2,646

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 (see Section 6.6). The Corporation Tax relief available was also enhanced by the super-deduction. This is only available on qualifying purchases of new plant and machinery made by 31st March 2023: see Chapter 7 for further details.

Without the benefit of the super-deduction, MacFinnan Ltd's Corporation Tax saving would have been £475 (£2,500 x 19%) and the overall total saving generated by buying the computer through the company would have been £2,503: but that still seems pretty worthwhile to me.

Bryce's example also demonstrates a simple, but important principle regarding the interaction between VAT and Corporation Tax. Where the company recovers the VAT on a purchase of goods or services, it only claims Corporation Tax relief on the net cost before VAT. This was complicated by the super-deduction in Bryce's case, but we can still see that the underlying expenditure which attracted Corporation Tax relief was the net cost of £2,500 before VAT, 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 3.7.

In many cases, all of the benefits enjoyed by Bryce will apply where an expense is put through the company. In other cases, however, 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 that 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 (see 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 9.

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 tax 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 15.05% on the benefit, costing a further £1,204, and bringing its total costs to £9,204 (£8,000 + £1,204).

To pay the extra Income Tax bill 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 Corporation Tax relief on the cost of the cruise and the National Insurance it has suffered, generating a saving of £1,749 (£9,204 x 19%).

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

Ticket price	*£8,000*
Employer's National Insurance	*£1,204*
Corporation Tax relief	*(£1,749)*
Income Tax on benefit in kind	*£1,600*
Increased tax on existing income	*£2,000*
Income Tax on additional dividends	*£1,834*
Total cost	*£12,889*

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, saving £814 in unnecessary extra tax.

In this case, the extra £814 cost of trying to put something completely inappropriate through the company amounts to more than 10% of the price of the cruise. Clearly, it's not worth it.

And it could be worse. I made a couple of 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 £1,060 (£8,000 x 13.25%) plus a further £540 in Income Tax on the extra £1,600 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 6.6.

Secondly, I assumed the cost of the cruise and related employer's National Insurance would attract Corporation Tax relief. This was because I assumed the 'employee benefit override' discussed in Section 2.1 would apply in this case. But this is not guaranteed and this issue is discussed further in Section 2.1.

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 3.4.

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 which 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 Section 6.6.

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 C 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 basic principles governing the deductibility of company expenses. In Chapter 2, we will look at deductions for Corporation Tax purposes then, in Chapter 3, we will consider VAT.

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