

Tax Planning For Business Owners

There are a number of planning opportunities available to help business owners reduce their exposure to tax and increase their personal wealth.

The Use of Pensions

As a business owner, you can make company contributions to your pension and offset the costs against your corporation tax bill. Even though dividend income is not 'pensionable' if you're a company director, you are eligible to receive pension contributions of up to £60,000 - irrespective of the level of salary you are drawing.

In addition, you can carry forward any unused pension contribution allowances from the previous 3 years. As such, it's possible to contribute up to a maximum of £200,000 in the current tax year.

If you have surplus funds within your company, and if you haven't fully used your pension contribution allowances for the past 3 years, you may wish to take advantage of this opportunity.

Reviewing Your Existing Pension

If you have an older style pensions contract (e.g. one that was set up prior to 2015) you may wish to review this to achieve the following:

- Optimise your pension fund performance.
- Reduce your pension contract charges and costs.
- Benefit from increased flexibility and choice in how you draw your benefits

For further information, please see:
[Maximising Your Income in Retirement](#)

Tax-Efficient Investments

Alongside your pension, you may wish to take advantage of tax-efficient investment opportunities to help maximise your income in retirement. The following link provides an overview of the available options:

[Investing for Growth, Security & Tax-Efficiency](#)

Provision of Additional Benefits

As well as being able to offset pension contributions, you can also provide yourself with valuable additional benefits. For example:

- Death in Service benefits (life assurance)
- Long Term Sick Pay / Critical Illness benefits
- Private Medical Insurance

Each of these can be offset against your corporation tax bill as a legitimate business expense.

(You may also wish to consider providing additional benefits for members of your team. This can help with the retention and recruitment of high-calibre employees).



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Protecting Your Business

Another expense that can be offset against corporation tax is business protection insurance. This can be used to protect your business, income and family in the event of you, or a key member of your team, suffering serious ill-health or premature death. The types of cover available include:

- Shareholder Protection Insurance
- Key Person Insurance
- Loan Protection Insurance

Business Ownership and Inheritance Tax

As a business owner, there are two scenarios worthy of consideration for inheritance tax purposes:

Excess Cash in a Business

Holding significant surplus cash in a company can lead to the loss of Business Relief (BR) and therefore, inheritance tax-relief on that money. This is because HMRC may deem it to be an 'excepted asset' (i.e. not trading).

By deploying your company's excess cash into a trading activity, you can restore BR to mitigate inheritance tax on that money. The simplest way to obtain (or re-instate) BR, is to put the excess cash to work in a BR-qualifying trading activity via a Corporate Cash Management Service.

Sale of a Business

When it comes to selling a business, an important factor to consider is what happens to the post-sale proceeds. If it's a trading business that's being sold, the value of your shares (pre-sale) would have been entitled to BR and therefore exempt from inheritance tax. However, once the sale has gone through and you no longer hold BR-qualifying assets, the cash proceeds will become subject to Inheritance Tax.

This may be a concern, particularly if you are approaching retirement age. It can be disappointing to know that your hard-earned money will now become a part of your estate for Inheritance Tax purposes.

There are a number of options available for mitigating inheritance tax. Further details can be found here: [Inheritance Tax Planning](#)

Further Information & Support

For help with reducing your exposure to tax, please contact John Castle:

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