

Cutting tax on profits

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SP writes: I am unsure of the most tax-efficient way to take surplus profits out of my company following the emergency Budget. I already take a market-rate salary so I could take the profits as a bonus or dividend. While my preference is to keep the business as it is, I would consider changing the structure if it made sense going forward. Should I be considering an alternative structure?

The emergency Budget affects the tax analysis for 2011/12, but does not change the position for the current tax year, writes [Jon Sutcliffe](#), partner at Kingston Smith LLP. The most tax-efficient route will depend on the level of taxable profit in your company and your taxable income.

Assuming you are a higher-rate taxpayer in 2011/12, with an income in either the 40% or 50% tax brackets, the dividend route will be more tax-efficient than the bonus route. A taxpayer paying tax at 50% and a company paying corporation tax on profits at the small company rate of 20% will pay £956 of corporation tax and personal tax to get £1,000 after tax in their pocket. This increases to £1,143 and £1,193 where the company pays the full rate and marginal rate of corporation tax, respectively. By contrast, with a bonus you would pay a total of £1,371 PAYE and National Insurance.

Where your income falls within the 40% tax rate band the preferred route is the same. A dividend paid by a company paying corporation tax at the 20% rate is sufficient to get £1,000 in your pocket after tax and will cost a total of £666 corporation tax and personal tax. This increases to £826 for a company paying corporation tax at 27%, and to £871 for a company paying marginal rate corporation tax. The equivalent bonus would set you back £962 in PAYE and NIC.

If you are open to changing the structure of your business then being taxed as self employed may be more tax efficient if the company is paying tax at a rate higher than the small companies' rate. This would include being a partner in a partnership. However, it was announced in the emergency Budget that there would be a full review of the corporation tax system and that the government is committed to a review of IR35 and small business tax. So any benefits you may get from changing your business structure may be short lived.

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