Businesses looking to cut costs should follow example of large corporations and take action to cut tax bill

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Businesses looking for ways to cut costs should follow the example of large corporations and take action to reduce their tax bill, according to Target Chartered Accountants.

The firm says that, in times of economic difficulty, companies look to trim their overheads but often overlook one very significant cost – tax. For those fortunate enough to retain an element of profitability during the downturn, reducing the tax burden will help to soothe the pain.

Mark Tuckwelll of Target says: “Big businesses making millions - even billions - of pounds have, for years, used numerous strategies to reduce their tax burden. What we are trying to do is to ensure such opportunities are available to privately-owned businesses, who could do with some relief.

“While most accountants will be able to advise on the difference in tax rates between taking a dividend or salary, this still leaves a minimum overall tax exposure of over 40 per cent for higher rate taxpayers. Tax specialists can provide strategies that offer significant additional reductions to these tax rates.”

Mark cites the example of a business whose profits are due to fall from £600,000 in 2007 to £400,000 in the current year. By careful tax planning, the owner is able to reduce the overall tax burden from 44 per cent to 15 per cent – leaving him slightly better off than the year before and ensuring that the Revenue takes the strain on his behalf.

Mark adds: “At Target we currently have around a dozen separate ways of reducing effective tax rates to between 30 per cent and 0 per cent. Unfortunately, it is not just a case of picking the best rate or ‘one size fits all’. Much will depend on the business’s position, commercial and personal objectives and attitudes to tax planning risk. By developing these ideas, we have the right tools to help all businesses through the current testing times.”

Case study:

In the year ended 31 December 2007, Percy’s Pigs made ‘profits’ of £600,000 which were then distributed to Percy, the sole shareholder of the business, half through his salary and half through dividends. After corporation tax, income tax, employer’s national insurance and employee’s national insurance, Percy received a relatively meagre £337,000. In other words almost 44 per cent was lost in tax!

For the current year ending 31 December 2008, Percy is expecting profits to fall to £400,000. Through some careful tax planning, Percy can ensure that there is no reduction in his ‘net’ income. His tax will be reduced to an effective rate of just over 15 per cent. Ironically, this will leave him with slightly more net income than the previous year, with the taxman feeling the performance downturn on

Percy’s behalf!

ENDS

Notes to Editors:

Target is a ‘top 35’ firm of chartered accountants specialising in owner managed businesses and people who want to maintain and increase their wealth. The firm has offices in the South West, Thames Valley and Midlands.   Target believe that an integrated approach means better client service, encompassing audit and accounts, tax reduction, personal financial planning and corporate transactions.

Specialist teams are in place to handle the different needs of large companies, small businesses and private clients. Target is particularly effective in advising shareholding directors who want to realise maximum value from their business. The firm has led and supported numerous corporate transactions ranging in value from £500,000 to £75 million.

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