YEAR-END TAX PLANNING FOR BUSINESSES

2020/21

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1 About This Guide

As the end of the tax year or the accounting period approaches, it is a good time for businesses to take stock and review their affairs. No-one likes to pay tax unnecessarily, and a little time spent considering the tax position ahead of the year-end can realise considerable tax savings. Now is the time to ask questions such as:

- Have we claimed a deduction for all available expenses?
- Have we claimed all the tax reliefs to which we are entitled?
- Have we made best use of all the available tax allowances?
- Do we have losses and how best should we utilise them?
- Should we consider changing our accounting date?
- Should we bring family members into the business?
- Have we made sufficient pension contributions?
- Have we claimed capital allowances?
- When is the best time to realise gains?
- Should we pay a dividend?
- Should we pay a salary?

While some of these questions are relevant regardless of whether the business operates as a sole trader or other unincorporated business, as a partnership, or as a company, other questions (such as the issue of whether to pay a dividend) are only relevant to a particular business structure (in this instance, a company).

This guide considers the answers to these and other questions in the content of year-end tax planning for businesses. For ease of use, there are tips of relevance to sole traders and unincorporated businesses (see Section 2), partnerships (see Section 3), and family and personal companies (see Section 4).

As well as the more general year-end considerations, there are also considerations of particular relevance to the end of the 2019/20 tax year-end, which apply as a result of changes in the legislation. These are examined in Section 6.

2 Sole Traders And Unincorporated Business

2.1 Overview

A sole trader is the simplest set-up type of business set-up. The proprietor gets to keep all of the profits; however, he or she is also liable for all of the business debts.

From a tax perspective, a sole trader is taxed on his or her total income after deducting his personal allowances – the profits of the business are not taxed separately but form part of the sole trader's taxable income, together with income from other sources, such as any employment or investment income.
Consequently, when looking to minimise his or her overall tax liability, a sole trader cannot consider the business in isolation – it is also necessary to