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Effective tax planning opportunities: defending profitability in difficult trading conditions.

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1. Consider ways of reducing taxable profits

For the self-employed, consider bringing forward the year-end to a date earlier in the tax year to get a quicker reduction in on-going tax liabilities on reducing profits; or extend it to bring in losses. The impact, however, will depend on available overlap relief. For a company, extending its accounting period to accommodate losses or write downs/further provisions may allow losses to be offset quicker against previous year profits; or may reduce profits that are taxed at a higher rate. Work-in-progress and stock may need to be valued more conservatively. Bad debt and credit note provisions may need to be increased. Purchased goodwill or intellectual property may need its carrying value reduced.

2. Consider reducing 2008/09 payments to account

Payments to account of an individual's 2008/09 income tax liability are made in two equal instalments on 31 January 2009 and 31 July 2009; and are automatically based on the individual's 2007/08 tax liability. The self-employed, sole-traders & partnerships: if the trading results for the accounting period ended in 2008/09 are expected to be lower than the results for the corresponding accounting period ended in 2007/08, then consider reducing the 2008/09 payments to accounts. A claim to reduce payments to account can be made at anytime and so if the 31 January 2009 instalment has already been paid based on the 2007/08 tax liability, a claim can be made at anytime after 31 January 2009 and it will generate an immediate repayment of part or all of the 31 January 2009 instalment – you don't have to wait until the 2008/09 tax return has been submitted.

3. Receiving rent from property held as 'stock' doesn't necessarily mean that the property has been transferred to 'fixed asset investments'.

Where property is shown in the accounts as stock held for resale, but the owner decides to hold it as an investment, then the normal accounting treatment will be to transfer the property from 'stock' to 'fixed asset investments'. There is, however, a significant tax downside to this: the property is treated, for tax purposes, as transferring at market value and so a tax charge is triggered even though no proceeds have been realised to pay it. Though the receipt of rental income is usually an indicator that a property has been transferred to "fixed asset investments", the current downturn in the property market means that properties that won't sell, are having to be rented out in order to generate cash. Where that is the case, consider keeping the property in 'stock' to avoid triggering a tax charge, but include a comment to this effect in the Directors' Report, otherwise HMRC may contend that the property has, in fact, transferred to 'fixed asset investments' notwithstanding its treatment in the accounts, meaning that a tax charge has triggered.

For more tax saving ideas and a VAT reclaim opportunity based on a recent decision by the European Court which has created a potential opportunity for UK businesses to claim previously irrecoverable VAT - one area where this could have an impact is the recovery of VAT on entertaining overseas clients, visit www.scott-moncrieff.com



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