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5 ways to save tax

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Tax is something we all have to pay but don’t want to. However, you can reduce how much tax you pay with tax planning. There are lots of smart ways you can reduce your tax bill and this document contains five great ways in which you can save tax.

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Trivial benefits

A trivial benefit is a tax free “gift” which an employer can give to the employees on an occasional basis. The VAT on trivial benefits can be claimed and the trivial benefit is deductible from corporation tax. In order to be exempt from tax and National Insurance contributions, the cost must follow a specific set of criteria for directors of close companies[1]. The gift must meet the following criteria:

- The total cost of the benefit is £50 or less
- The benefit isn’t cash or a cash voucher*
- The benefit isn’t a reward for performance
- The benefit isn’t an ongoing cost or reward such as a membership
- The benefit isn’t outlined in the worker’s contract

**Vouchers exchangeable for cash are not acceptable under trivial benefits. Vouchers exchangeable for goods and services only (i.e non-cash vouchers) are acceptable under trivial benefits.*

If you are a director of a close company, you can’t receive trivial benefits worth more than £300 in a tax year. The £300 limit only applies to directors of a close company. Therefore, this means you can give employees as many trivial benefits as you like as long as they meet the rules above. If the exact cost per head can’t be worked out, or it’s impractical to calculate it accurately, you can use an average. For example, for a group event you aren’t required to identify the cost of each person’s share of the bill. If the company pays for delivery remember this will count towards the £50.

[1]Close companies: A close company is a limited company that’s run by 5 or fewer

Employment allowance

The employment allowance is a way of reducing your Class 1 National Insurance (NI)[1] payments by up to £5,000 per annum (2023/24). To qualify you must meet the following:

1. You have more than one employee

A sole director company does not qualify as an employee. You can also not claim for any off payroll workers or employees for personal, household or domestic work such as a gardener.

2. Your previous tax year Class 1 NI liabilities were less than £100,000

The £100,000 is the total of the group Class 1 NI liabilities (if applicable). If you have multiple payrolls, the employment allowance is only able to be deducted from one.

3. De minis state aid limits do not apply

These are likely to apply if your business is located in Northern Ireland and makes or sells goods or wholesale electricity. If you meet the de minis state aid limits, you will need to work out how much state aid you have received over the last 3 years to check you're below the limit (variable per sector) to claim employment allowance.

If you use payroll software, claiming the allowance should be fairly simple - often by ticking a box. If you do not use payroll software or your provider does not include this service, you can use the Basic PAYE Tools to claim. You can also backdate a claim for up to 4 years, so if you didn't claim when you could have you can still get this back.

[1]Class 1 National Insurance: Employers contribution to National Insurance based on employee's gross salary (set percentage above threshold)

Patent box

The patent[1] box is a way to reduce your corporation tax on profits made which relate to intellectual properties[2] from patented inventions, or some innovation rights, within the company. The company must have carried out development in relation to the right (even if minor) to use the patent box. If you meet this criteria you could reduce your corporation tax to 10% on the qualifying income.

Intellectual property income includes:

- All royalties or licence fees received for use of qualifying patent protected inventions
- Embedded income from the sale of any products which incorporate at least one invention covered by a qualifying patent
- Income from selling spare parts for a qualifying patent protected product
- Compensation for loss of profits arising due to an infringement[3] of a qualifying patent
- Income from the sale of qualifying patents

You can find more information on the patent box **here**.

[1]Patent: An exclusive right granted for an invention which excludes others from producing unless permission given by patentee
[2]Intelletual properties: Include patents, copyright, trademarks and trade secrets
[3]Infringement: An action which breaks the law or agreement

Life insurance

There are a few different types of life insurance however, we are going to look at relevant life plan (RLP) which we believe is the most tax efficient life insurance for companies.

What is RLP?

RLP's run for a certain number of years (minimum 1 year) which are decided at the start of the policy. The policy will payout if an employee or director die while working for the business. You can set up some RLP's to include cover for terminal illness. The payout is based on a multiple of the employee or directors' remuneration. The employee is covered by the policy, but the employer pays the premiums. If the employee leaves it can be transferred to a new employer or most insurers will allow a policy to be converted to a personal policy. The plan must end before the employee turns 75.

Benefits of an RLP

Unlike other insurance policies RLP is not a benefit in kind[1] meaning your company, and the employee, will not be subject to tax and NI. The premiums are deductible against corporation tax and if you hold the policy in a trust, it will not form part of the individual's estate therefore not subject to inheritance tax[2].

[1]Benefit in kind: Benefits received from the company which are not included in their salary e.g. company payment for an employee gym membership
[2]Inheritance tax: Money paid on property, money and possessions when a person dies

Dividends

The tax you pay on dividends can be lower than the tax you pay on salary (PAYE[1] & NI). It does however depend on your other income. There is a dividend tax free allowance you can take each tax year (£1,000 2023/24) therefore even if it works out to not be beneficial to take dividends as you would pay a higher tax, you can always take a tax free amount each tax year.

The current rates on which you pay dividend tax depends on all your other income combined (excluding dividends). You can see in the table on the next page the different tax rates on dividends, PAYE and NI for 2023/24.

This table may make it look like dividends are the best way to pay less tax but there is another consideration here. Any salary payments and employers NI contributions are deductible against corporation tax whereas dividends are not an allowable deduction therefore, corporation tax is payable on the dividends taken from the company. This means in most cases it is only beneficial to pay dividends if your total income (excluding dividends) is below £50,270.

There are certain criteria your company must meet to be able to pay out dividends. You cannot pay a dividend unless your company has made a profit cumulatively up to the date of the dividend. Although even if you have made a profit, you need to consider upcoming business costs such as corporation tax, salaries, VAT, PAYE, annual subscriptions etc.

Dividends can be paid to shareholders of the business at any point as long as the above criteria has been met. To do this the directors must hold a meeting and declare the dividend, additionally minutes of this meeting need to be recorded.

The amount of dividend you set is to be paid to all shareholders based on the number of shares they hold. You cannot exclude some shareholders from the dividend unless they are within a different class.

[1]PAYE: Pay As You Earn. The method the employer uses to take income tax before they pay your wages

Dividends

Tax Band	Tax rate on dividends	PAYE rate	NI rate (letter L)*
Up to £1,000	0%	0%	0%
£1,000 to £12,570	8.75%	0%	0%
£12,570 to £50,270	8.75%	20%	2%
£50,271 to £125,140	33.75%	40%	2%
over £125,140	39.35%	45%	2%

**rate may change if your personal tax code is a different letter. See here for rates.*