

## **2007-08 PRE YEAR END PLANNING POINTERS FOR PSCs**

### **SALARY LEVELS:**

If contracts are caught by IR35 then the salary level has to be calculated under IR35 rules.

Outside of IR35, we recommend £8,000 for the principal contractor and £5,000 for a spouse who doesn't work elsewhere/use their allowances.

### **DIVIDEND STRATEGY:**

Please see our advisory note on dividend strategy and IR35 risk minimisation (<http://www.garbetts.com/download/dividendstrategy.pdf>) - we'll need to know how you wish to address this in the year end accounts.

### **INCOME SHIFTING - SS660A – DIVIDENDS AND SALARY TO SPOUSES:**

As you will be doubtless be aware new rules to counter so called "income shifting", the whole S660A & Arctic Systems issue – and come into play from 6 April 2008.

Our guidance on them is here: <http://garbetts.blogspot.com/2008/01/income-shifting.html>

Issues arising:

- for 2008/09 onwards, spousal shares are probably out of the question unless your spouse does substantive customer facing work for the company. If they do then the shareholdings will need to reflect the appropriate levels of input in both cases, and not simple be a 50:50. We do not recommend any action this immediately – assuming the rules are confirmed in the budget on 12 March we will write to clients then, updating our guidance, and seeking instructions for shareholding changes.

- for 2008/09 onwards a spousal salary up to the personal allowance level is probably still acceptable, if your spouse assists with company administration and accounting.

- for 2007/08 and previous years, because the Arctic Systems case finally went in favour of the taxpayer, these years can probably be regarded as safe, regardless of shareholdings are split.

- if you are:
  - a higher rate tax payer (or potentially one, but you roll up money in your company instead); and
  - your spouse doesn't have shares in your company; and
  - your spouse doesn't use all of their basic rate tax band (just under £40,000 of income PA)

then there is a window of opportunity to create a spousal shareholding between now and 5 April for 2007/08 only. The advantage of this is using you can increase your capacity to draw dividends at basic rate. This will save you 25% of the amount drawn if it is taxed on your spouse at basic rate rather than yourself at higher rate. However the disadvantage is that making this change so close to the end of the tax year, especially when new rules are coming in, is provocative and may result in your affairs receiving closer scrutiny than usual by HMRC. Also HMRC could challenge the transaction as a sham.

### **S419 – MAKING SURE THERE IS ENOUGH MONEY IN THE COMPANY:**

To avoid S419 problems it is important that funds for the Corporation Tax and PAYE liabilities, along with 4th quarter vat (where registered) are set aside in the company bank account at 31 March 2007. Every year we have clients who ignore this, and it costs them extra taxation and increases their inspection risk.

## **PENSION CONTRIBUTIONS & TAX EFFICIENT INVESTMENTS:**

With markets being relatively low at present, now is a worth while time to consider pension investment if you are not already doing so. Please let me know if you would like a recommendation to an IFA to discuss this.

Likewise our IFAs can assist with ISAs and other tax efficient investments.

Garbetts Financial Strategies: [www.garbetts.com/gfs](http://www.garbetts.com/gfs)

## **YEAR END ACCOUNTS:**

In most cases your company year end will be 31 March; we will make a start on the year end accounts once 4th quarter vat/quarterly accounts are cleared. I would hope that the year end accounts would be with you by the end of June.

To help us with the year end accounts I will need you to complete the *year end questionnaire* which is embedded in my firms PSC spreadsheet – its on worksheet tab next to Q5 (in most cases, of course, Q5 itself will be blank).

## **HOME PHONE BILLS:**

If you claim any home phone bills (or for that matter, broadband or mobile) then to void a possible NI charge, the account should be in the company name.

## **VAT FLAT RATE SCHEME**

Most PSCs benefit from the flat rate scheme – if you haven't looked at it, we suggest you do. On the vat summaries tab of the spreadsheet you prepare for us row 20 gives you a percentage for your vat paid to gross income – if that percentage is more than your flat rate, then the flat rate scheme would save you money – however you can't switch in and out on a quarter by quarter basis. You have to apply to HMRC to join and leave the scheme.

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