A guide to tax planning strategies for high-growth businesses

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If they want to be successful and get where they want to be, high-growth businesses need great products or services, streamlined operations and a highly talented workforce. They must also remain compliant with business law, complete a yearly tax return and stay on top of their finances.

But there's something else that many business owners neglect and end up paying more money than necessary as a result: tax planning strategies. Are you among them?

Without a tax plan, your business will probably pay more tax than necessary, sucking up precious cash you could have reinvested into the organisation. It's as simple as that. And we're not talking about pennies: a successful R&D tax credit or capital allowance claim could save you tens of thousands of pounds, depending on your situation.

So, what tax planning strategies are available to ambitious entrepreneurs? What are some of the ins and outs, and who can claim? Tax laws are challenging to navigate, so, in this guide, we'll cover the most significant tax relief and credit schemes that offer your business tax efficiency. By the end of it, you'll be one step closer to turning your dream into a reality.

Business expenses and allowable deductions

Successive UK governments have wanted businesses to invest rather than sit on their money. But spending vast amounts of money is sometimes risky, especially during an economic downturn.

To help businesses and encourage them to carry on spending (thereby keeping the economy ticking over), politicians let businesses offset certain business costs against their profits before tax, reducing the figure HMRC uses to work out a corporation or income tax bill.

But when it comes to tax relief, not all expenditure is created equal. Let's go over some of the primary types of expenditure you can claim.

Allowable expenses

First, there are **allowable expenses**, which cover the general expenses incurred as part of the day-to-day running of a business (as opposed to long-life assets and R&D expenses).

With allowable expenses, you can deduct the total value of a business expense from your pre-tax profit in the financial year it was incurred to reduce your taxable income. This type of tax relief is available to sole traders, partnerships and limited companies.

Common allowable expenses include:

- **office costs**: for example, stationery or phone bills
- **travel costs**: for example, fuel, parking, train or bus fares
- **clothing expenses**: for example, uniforms but not personal clothes you wear for work
- **staff costs**: for example, salaries or subcontractor costs
- **things you buy to sell on**: for example, stock or raw materials
- **financial costs**: for example, insurance or bank charges
- **costs of your business premises**: for example, heating, lighting, business rates
- **advertising or marketing**: for example, website costs
- **training courses related to your business**: for instance, refresher courses.

You can make partial claims for certain expenses you incur for personal and business use, such as a mobile phone you use for both purposes. However, you can only claim the cost of an item related to your work. Therefore, you must ensure your claim is reasonable and have the records to back it up.

Capital allowances

Capital allowances are business deductions you can use to claim for long-life assets that HMRC calls 'plant and machinery'. There are two 'pools' of assets that businesses can claim. The first is the 'main rate', which covers:

- machines such as computers, printers, lathes and planers
- office equipment such as desks and chairs
- vehicles such as vans, lorries and tractors (but not cars)
- warehousing equipment such as forklift trucks, pallet trucks, shelving and stackers
- tools such as ladders and drills
- construction equipment such as excavators, compactors, and bulldozers
- some fixtures, such as kitchen and bathroom fittings and fire alarm systems in non-residential properties.

The second pool is the 'special rate pool':

- items with a long life
- solar panels
- thermal insulation you've added to a building
- cars with CO_2 emissions over a certain threshold
- 'integral features'.

The final expenditure, integral features, refers to “parts of a building considered integral” on the Government website. That means things like lifts, escalators and moving walkways; space and water heating systems; air conditioning; hot and cold water plumbing (but not toilet and kitchen facilities); electrical circuits, and external solar shading.

What you can claim depends on the asset you’ve purchased as there are multiple capital allowance schemes you could benefit from.

1. Annual investment allowance

The most popular capital allowance scheme is the **annual investment allowance** (AIA), which allows businesses to write off the total value of an eligible expense in the same accounting period in which it was purchased.

The AIA applies to main and special rate plant and machinery and is open to sole traders, partnerships and limited companies. However, it’s capped at £1 million – it might, therefore, be of limited value to large and rapidly growing businesses.

2. Full expensing and the 50% first-year allowance

If you’re spending more than £1m a year on eligible plant and machinery, you may be able to use the temporary full expensing scheme to claim for assets that exceed the AIA limit – as long as you’re a limited company and claim for new, main rate assets.

You can still claim for special rate assets, but only at 50% of their value in the first accounting period. You can claim writing-down allowances for 6% of the remaining value in subsequent accounting periods.

These schemes will run until 31 March 2023.

3. Writing-down allowances

If it wasn’t for full expensing, this is the scheme you would use when you exceed the AIA limit. Under the **writing-down allowance**, companies can claim 18% of an asset’s value per accounting period for main rate expenditure and 6% for special rate assets.

4. First-year allowance

Not to be confused with the 50% first-year allowance, the **first-year allowance** allows you to claim for the full cost of assets such as electric cars and expenditure related to the refuelling of vehicles.

Research and development (R&D) tax relief for qualifying expenses

Companies can also claim either **tax relief or tax credits for R&D expenditure** related to a project that uniquely contributes to an advance in science or technology.

Eligible expenditure includes:

- **staff costs**: salaries, wages, employer's National Insurance (NICs) contributions, and pension contributions of employees who are directly engaged in carrying out R&D activities.
- **subcontractor and externally provided workers (EPWs) costs**: the cost of hiring subcontractors or EPWs to carry out R&D activities on behalf of the company is eligible for relief.
- **consumables**: the cost of materials, water, fuel, and power consumed or transformed during the R&D process.
- **software**: the cost of purchasing or licensing software that is used directly in the R&D process.
- **capital expenditure**: the cost of equipment and facilities used directly in the R&D process.

Companies can claim one of two types of R&D tax relief, each tailored to companies of different sizes.

First, there's the **SME R&D tax relief**, available to companies with fewer than 500 staff, and a turnover of under €100m or a balance total sheet under €86m.

Profit-making companies can deduct a 186% 'enhanced deduction' of their qualifying costs from their profit, leaving them with a smaller taxable income that corporation tax is applied to.

On the other hand, loss-making companies can either carry their loss plus the enhanced deduction forward to be offset against future taxable profit or they can surrender their losses and claim a tax credit equal to 10% of the enhanced deduction. However, if they spend at least 40% of their expenditure on R&D, that credit is worth 14.5%.

For larger companies, the R&D expenditure credit (RDEC) will apply. Through this scheme, companies can claim a 20% credit on their qualifying expenditure incurred on or after 1 April 2023, which will then be subject to corporation tax.

Creative industry tax reliefs

If you're in the creative industry or run a museum, you may be able to claim **creative industry tax relief**. There are several types and apply to: the production of films, video games, high-end television, animation, children's television, theatre shows, orchestra shows and the running of museums.

If you're successful in your application, you can claim an additional deduction to reduce your taxable profits or increase a loss, reducing the amount of corporation tax you must pay. The additional deduction will be the lower of either:

- 80% of core costs (expenditure related to the film, production, exhibition, etc.)
- All core costs incurred in the UK.

Investment and entrepreneurial tax reliefs

The Government also offers capital venture schemes to small and medium high-growth businesses looking for investment.

Each has complex eligibility requirements and rules, so make sure to read the Government's complete guidance on each. In the meantime, though, let's go through some of the basics together.

Seed enterprise investment scheme (SEIS)

This scheme offers tax reliefs to individual investors who buy new shares in your company, helping you raise much-needed capital.

You can receive a maximum of £250,000 through the **seed enterprise investment scheme** (SEIS) but can only spend the money on R&D or expenses that will help grow your business. You also need to spend the money you raise within three years.

The SEIS is targeted at startups that have been trading in the UK for less than three years, have fewer than 25 employees and less than £350,000 in gross assets.

You need to get Government approval to raise funds through its SEIS scheme; meanwhile, investors will want assurance that their investments definitely will benefit from the tax relief the scheme offers them.

This is where advance assurance comes in, allowing you to check whether you qualify before applying.

Enterprise investment scheme (EIS)

The **enterprise investment scheme** (EIS) is similar to the SEIS but is targeted at established companies (trading fewer than seven years, less than £15m in gross assets, with fewer than 250 employees). Other eligibility criteria apply.

Under the EIS, investors who buy new shares with you also get tax relief, but with this scheme, you can raise up to £5m each year and £12m in your company's lifetime.

The money must be spent within two years of the investment and can only be used within the business, specifically to grow or develop it.

Again, you can get advance assurance before you apply for the scheme.

Employee-related tax incentives

While employee-related tax incentives may not be on the top of your priority list when it comes to tax planning strategies, they can nevertheless help you reduce your tax liability.

Tax-efficient employee benefits

It's crucial for employers to offer employee benefits to incentivise new talent to join the team and motivate current employees.

The costs of these benefits can quickly rack up, but you can keep the costs down by offering employee benefits that are exempt from employers' National Insurance. The main tax-exempt benefits include:

- childcare vouchers up to £55 per week for basic-rate taxpayers, £28 for higher-rate taxpayers, and £25 for additional-rate payers
- pension contributions on behalf of an employee into an approved pension scheme
- costs related to an employee working from home; up to £26 per month or £6 per week
- trivial benefits that cost less than £50 to provide, are not cash or a voucher, and are unrelated to their work or performance (things like flowers for an engagement or a Christmas gift)
- annual social events worth up to £150 per employee.
- employee mobile phones.

Please note that there are various eligibility criteria and potential restrictions on tax-exempt employee benefits, so it's easy to get caught out. Always **speak with an accountant** to ensure your benefits are tax-free.

Employee share schemes

Another solution for tax-efficient employee benefits is to offer an employee share scheme, such as the save-as-you-earn scheme and enterprise management incentive. Under these schemes, employees can get or buy shares or share options to own a part of the company without paying tax or enjoying a reduced tax liability.

For employers, employee share schemes can entitle businesses to corporation tax relief on the cost of setting one up, making this a cost-efficient way to reward employees for all their hard work. Furthermore, there is usually no employers' National Insurance due on the share or option if the specific conditions of each share scheme are met.

National Insurance contribution relief for employers

And finally, the **employment allowance** allows eligible employers to reduce their annual National Insurance liability by up to £5,000 or until the end of the tax year (whichever is sooner).

To be eligible, you must have employers' Class 1 National Insurance liabilities below £100,000. Deemed payments to off-payroll workers, such as contractors, do not count towards this figure.

Contact us

Reading through our guide lets you appreciate how long-winded tax planning can be, with all the calculations and eligibility checks. The bigger your business is and the more you do, the more complex the whole process will be. So why not do your tax planning correctly and call in the experts?

At Fairman Keable, we can help you with all aspects of your business's tax planning, from claiming capital allowances and R&D tax credits to reducing your capital gains tax liabilities.

With our modern approach and commitment to delivering strategic tax solutions, we can help you get the most from your tax bill.

Let's work together to minimise your tax liabilities, maximise your savings, and ensure long-term financial success.

Contact us today to get started with your tax planning strategies.

Ready to find out more?

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