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Steps to Reduce Your Corporation Tax as a Limited Company

With the changing tax landscape, as the government attempts to claw back the costs of the pandemic, it is important to plan ahead to make sure you are utilising all your available tax reliefs, exemptions or allowances and ensure that they are used effectively. Here are some key steps to consider when it comes to corporation tax relief on pension contributions and relevant life policy premiums, to generate you savings.

1.

Prioritise Your Company Pension

As a limited company, making an employer pension contribution can bring significant tax advantages. Employer pension contributions can be treated as an allowable business expense and are relievable against your company's corporation liability. As this isn't paid as a salary, as the employer you would also make a NI saving as well. Ideally your company would make a monthly payment which is affordable, then before your company year-end, make a one off payment to maximise allowances and tax savings.

With corporation tax at 19%, for every £10,000 you invested, you would reduce your tax bill by £1,900. However, don't forget that from 1ST April 2023 corporation tax is set to increase up to 25% so even great savings can be made if you start to plan now.

2.

Use "Carry Forward" To Pay Less Tax

When you are busy with work, pension contributions might understandably drop down your list of priorities. However, the pension carry-forward rules allow you to claim unused annual allowances from the three previous tax years, in order to maximise your pension contributions in the current tax year. You must use this year's allowance first but then you can go back to the 2018/19 tax year to check if you have any unused allowance available, then 2019/20 and finally 2020/21. This means for some people there is potential for £160k in this tax year and receive corporation tax savings of 19% on the contribution i.e. £30,400.

3.

Prioritise Your Company Pension

Because of a quirk in the way personal allowances work, there is effectively a 60% Income Tax rate on earnings between £100,000 and £125,140 If you earn £100,000 or more per year your £12,570 personal allowance is reduced at a rate of £1 for every £2 you earn above £100,000. This means that for every £100 of income between £100,000 and £125,140, you will only take home only £40, with £40 in income tax and £20 lost due to the gradual removal of the personal allowance. If you were to increase your pay to £110,000, if you paid £10,000 into your pension, it takes you out of the 60% zone – and you also benefit from higher-rate tax relief on that contribution at 40% which means an extra £4000.

4.

Pay Life Insurance Via Your Company

If you have life insurance or are looking to put life insurance in place, consider the option for relevant life cover instead. This is life cover which is paid through your business and the monthly premiums are classed as an allowable business expense to offset against your corporation tax.

For example; with personal life cover, you would have to pay tax and national insurance before you pay for your life insurance, with relevant life cover you do not. Therefore in this example below, if you are a higher rate tax payer this can work out at half the cost Of your annual insurance.

	Ordinary life cover £1,000	Relevant life cover £1,000 (PAID BY CO.)
Employee gross salary increase	£1,724.14	
Employee's National Insurance Contribution at 2%	£34.48	-
Income Tax at 40%	£689.66	-
Employee's National Insurance Contribution at 13.8%	£237.93	-
Corporation Tax Relief at 19%	- £372.79	- £190
Net Cost	£1,589.28	£810

***Assumes contracted into State Second Pension**
The levels and bases of taxation and reliefs from taxation can change at any time. The value of any tax relief depends on individual circumstances

Total Saving of 49%

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