



## **A TAX SAVING CASE STUDY**

No one wants to pay more tax than they need to but that is exactly what many businesses and individuals end up doing, simply because they have not taken advantage of the tax saving opportunities available to them.

At Barnes Roffe LLP we focus on the details and specialise in helping companies find tax efficient solutions, whilst also offering first class business and accounting advice. One area we specialise in is making sure that our clients do not pay more tax than they need to by looking into innovative, yet legitimate ways they can reduce their tax bill.

Maybe we could do the same for you?

### **How we helped a family company with their income and tax planning**

#### **Background**

Mr X and his wife were introduced to Barnes Roffe LLP via an existing client. Mr X owned and managed a precision engineering company along with his 40-year old son who was soon to become the MD. The company was reasonably small and had achieved modest levels of profit for many years, after having paid salaries to both him and his son.

Our tax consultant met with Mr X on a no obligation basis to see what tax saving options were available to him.

#### **Actions**

Following the meeting, several planning options were adopted.

- Mr X decided that it was time to transfer a number of his shares to his wife and son. The shares were full equity shares with voting and income rights, albeit Mr X was advised to convert these shares into a separate class of share for dividend purposes, such that the Board (which he controlled), was able to pay dividends at his discretion.
- Mr X also decided to invite his wife and son onto the Board and subsequently changed the Company's salary policy to pay only minimal directors' salaries to each director, thereby increasing the company's reported profits.



- The Board was then able to adopt a formal quarterly dividend policy allowing dividends to be paid to the family’s shareholders. The receipt of dividend income as opposed to salary income created reduced tax bills and allowed the shareholders to benefit from increased levels of net income.
- In addition, Mr X was able to share an amount of dividend income with his wife enabling the couple to benefit from the use of his wife’s lower rate tax bands which were previously unused.
- Mr X was also keen to put a number of shares into trust for the future benefit of his son and his grandchildren, whilst retaining voting control thereof as a trustee. Dividend income would then also be received by the trust on its shares enabling the income to be used by the trust to pay for his grandchildren’s school education tax free.

**The Result**

All these changes are well and good, but you are probably wondering whether they resulted in any significant benefit to Mr X and his family?

The answer is – YES they did!

**By following the advice that Barnes Roffe gave to Mr X, these planning options resulted in tax savings which gave the family an additional annual net income of £31,000.**

And, most importantly, these tax savings were created by using legitimate tax strategies which are commonly seen by HMRC.

Barnes Roffe is an independent firm of chartered accountants and business advisors. We have provided audit and assurance, consulting, financial advisory, risk management and tax services to owner-managers for more than 110 years.

We are one of the UK’s top 40 accountancy firms, with more than 20 partners and over 150 employees, all committed to delivering outstanding service to our clients.

Having helped clients weather the turbulent times of the last century, we pride ourselves of being able to offer practical advice, along with a fresh perspective to our clients of today.

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