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# Year-End Tax Planning for SMEs

*Proactive steps to minimise your tax bill and prepare for the new financial year*

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## Introduction: Why Year-End Planning Matters

Proactive year-end planning can significantly reduce your tax bill and set you up for success in the new financial year. Many tax-saving opportunities are only available if you act before your year-end. This guide outlines the key steps to take in the months and weeks before 5 April (for personal taxes) or your company year-end to ensure you are not paying more tax than necessary.

**Top Tip:** Start your year-end planning at least three months before your year-end to give yourself time to implement strategies.

## Reviewing Income and Expenses

Ensure your records are complete and accurate before finalising your accounts:

### Income Review

Check that all income has been properly recorded:

- Reconcile sales records to bank receipts
- Issue any outstanding invoices before year-end
- Consider timing of income recognition if at year-end boundary
- Identify any deposits or advance payments
- Review work in progress for accurate valuation

### Expense Review

Capture all allowable expenses to reduce taxable profit:

- Gather any missing receipts - use bank and card statements as prompts

- Check for unclaimed mileage throughout the year
- Review if any personal purchases had business elements
- Accrue for known expenses not yet invoiced
- Consider accelerating discretionary expenditure

## Bad Debt Review

Write off genuinely irrecoverable debts to claim tax relief. Document your attempts to collect and the reasons the debt is now bad. This provides an immediate tax deduction.

## Capital Allowances and Equipment

Capital allowances provide tax relief on business equipment purchases:

### Annual Investment Allowance (AIA)

The AIA allows 100% first-year relief on most plant and machinery up to £1 million:

- Consider bringing forward planned purchases to before year-end
- New and second-hand equipment qualifies
- Includes computers, office equipment, vehicles (except cars), machinery
- Full allowance available even if asset acquired on last day of year
- Cars have separate, less generous rules

## Electric Vehicles

Electric cars and charge points attract enhanced reliefs:

- 100% first-year allowance on new zero-emission cars
- Electric charge points also qualify for 100% relief
- Company car benefit rates are much lower for electric vehicles
- Consider timing of electric vehicle purchases strategically

## Asset Disposals

Review assets you are considering selling and the timing implications for capital allowances and balancing charges.

**Top Tip:** If you are making a significant purchase, consider whether year-end timing affects your tax relief - discuss with your accountant.

# Pension Contributions

Pension contributions are one of the most tax-efficient ways to extract money from your business:

## Employer Contributions

Contributions made by your company to your pension:

- Fully deductible against corporation tax
- No National Insurance for employer or employee
- Must be wholly and exclusively for business purposes
- No absolute limit, but must be justified by role and remuneration
- Most tax-efficient way to extract profits for retirement

## Personal Contributions

If self-employed or making personal contributions:

- Relief at your marginal tax rate
- Annual allowance of £60,000 for 2024/25
- Carry forward unused allowance from previous 3 years
- Consider implications if close to higher rate threshold
- Deadline for relief in current year is 5 April

## Salary Sacrifice

For company directors and employees, salary sacrifice for pension saves both employer and employee National Insurance - a significant additional saving on top of income tax relief.

# Directors Remuneration Planning

For directors of limited companies, the split between salary and dividends affects your overall tax bill:

## Optimal Salary Level

The most efficient salary level depends on your circumstances:

- Many directors take salary at the NI Secondary Threshold (£9,100 for 2024/25)
- This avoids employer NI whilst maintaining state pension credits
- Higher salary may be appropriate if company has losses to absorb
- Employment Allowance of £5,000 may justify higher salary
- Review optimal level with your accountant annually

## Dividend Planning

Dividends are taxed more favourably than salary above certain levels:

- Dividend allowance is £500 for 2024/25
- Basic rate dividend tax is 8.75%
- Higher rate dividend tax is 33.75%
- Consider timing of dividends around year-end
- Dividends can only be paid from profits - check position before declaring

**Top Tip:** The optimal salary/dividend split changes with legislation - review with your accountant each year.

## Personal Tax Year-End Planning

For sole traders and individuals, specific deadlines apply at 5 April:

- Use your annual ISA allowance (£20,000) before the deadline
- Make pension contributions to use annual allowance
- Use your Capital Gains Tax annual exemption (£3,000 for 2024/25)
- Consider bed and ISA or bed and SIPP to crystallise gains tax-efficiently
- Make gifts using annual inheritance tax exemptions
- Review Marriage Allowance and transfer if applicable
- Claim any unclaimed tax reliefs for earlier years
- Consider timing of asset disposals around 5 April

## Preparing for the New Year

Set yourself up for success in the coming year:

- Review and update your business plan and budget
- Set aside money for upcoming tax payments
- Review your accounting systems and consider improvements
- Schedule regular financial review meetings (monthly or quarterly)
- Plan major purchases and investments with tax timing in mind
- Book year-end and accounts meetings with your accountant early

- Review insurance policies at renewal for best rates
- Consider what changes in legislation affect you

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