



# COMPANY DIRECTORS - TAX EFFICIENT PAYMENT STRATEGIES

## WELCOME

"With each unique client we challenge ourselves to ensure you achieve strategic growth within your organisation"

We achieve this with emphasis on  
clear and concise reporting

HELPING YOU MAKE THE CONNECTION BETWEEN  
SALES, FINANCE & PROFITS

**F D** OUTSOURCE

more than accountants

# Year-End Bonus

It's a common tax planning tactic to prepare a draft set of company accounts, work out the tax liability and then decide to vote a bonus to the directors (which must be paid within nine months of the year end)

This bonus must be included in the accounts to either clear an overdrawn Director's Loan Account, or reduce the Company's Corporation Tax liability

Since January 2005, under accounting rules (FRS 21), bonuses for employees or directors declared after the year end may only be accrued if there was a *"legal or constructive obligation at the balance sheet date"* to make such payments.

All other bonuses declared after the year end cannot be included in the accounts until the following year.

**Note:** While FRS 21 was generally superseded by FRS 102 and other accounting standards in 2016, the principles remain the same.

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**Tip:** Prepare a Board Minute before the year end setting out the basis for determining the bonus, e.g. X% of profits. This will evidence to prove that there was a legal obligation to pay a bonus before the year end and, therefore, a provision for the bonus can be included in the accounts

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If paying yourself a bonus is going to cost you 40% (or 45%) in tax, you might think twice about taking one. However, letting another family member have that bonus instead of you is one way of beating HMRC, particularly if the family member hasn't already used up their tax-free personal allowance (£12,500 for 2020/21) or lower rate tax bands.

### **Example**

*A £10,000 bonus paid to you means your family income will only grow by £5,800, because as a higher rate taxpayer £4,000 (40%) goes in income tax and £200 (2%) in NI. Paying the same £10,000 to a family member who is not a director and has not used their personal allowance elsewhere increases your household's income to £9,479.*

*There's no tax to pay because it's covered by the personal allowance and employees' NI is only £530 (£792 at 0% + £3,375 x 12% + £5,833 x 2%). The employers' NI on the £10,000 bonus is £1,380 if you receive the bonus, but £1,270 ((£10,000 - £792) x 13.8% if a family member receives it and they don't already receive a salary from the company.*

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**Note:** The above example assumes that the family member is not a director and, therefore, their NI has to be worked out using monthly earnings period rather than an annual one.

**Be Careful:** The bonus has to match the duties of the family member, i.e. they must carry out work for the company that justifies a payment of £10,000 otherwise HMRC can refuse a tax deduction for the amount deemed to be excessive.

To Our Stakeholders

FD Outsource is committed to working directly with Sales Driven MD's within their specialised sector to ensure they achieve continual strategic growth.

The Strategic Growth can be measured against the business plan using quantifiable financial measures.

These financial measures can be within Sales/Revenue, Gross Margins, Cashflow, Profitability and Net Worth.

The milestones set in the business plan will be monitored and reviewed at regular intervals through the business life cycle with continual focus on succession planning with the management team.

Our internal core values can be seen within our 5c Guarantee provided to all clients. These are:

- CCommunication
- CCreativity
- CCoherence
- CCommitment
- CConclusion

### Analyse , Identify and Plan

Our priority is that cash flow doesn't become a Barrier to Growth and business profits be converted in to personal wealth.

Sincerely

A handwritten signature in white ink that reads 'Mark Terrington'.

Mark Terrington  
Founder & CEO

WE WORK WITH SALES DRIVEN  
BUSINESS OWNERS

HELPING YOU MAKE THE CONNECTION  
BETWEEN  
SALES, FINANCE AND PROFITS



For a Free discussion on how you can  
make the connection and convert  
business profit in to personal wealth.  
Contact us today

[enquiries@fdoutsource.co.uk](mailto:enquiries@fdoutsource.co.uk)