



NEWSLETTER - Jan'21

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 PROVISIONS: getting the paperwork right

Your company's year end is fast approaching and you're considering making bonus provisions to reduce your company's tax bill. What do you need to do to ensure that HMRC won't successfully challenge these provisions?

Planning to reduce the tax bill

Despite lower sales due to coronavirus, your 2020 forecast to the end of the year is showing higher profits than last year due to you being able to cut staff costs by taking advantage of the furlough scheme.

The downside is that this means there's potentially more corporation tax to pay so you are now looking at ways you can reduce the profits on which your company pays tax.

Bonus Provisions: One thing to consider is whether any bonuses should be voted to the directors and staff and, if so, when these should be paid to ensure the company gets the tax relief as early as possible.

Nine Months Later

The good news is that you can claim tax relief for bonuses paid to directors and staff before you've actually paid them. The rule is that the bonus payment has to be made within nine months of the year end to get tax relief against the year-end profits. However, what is often missed is that this isn't the only requirement in order to get the relief.

Existing Obligation

Under FRS 102, a bonus can only be accrued for on the balance sheet if there is a legal or constructive obligation at the balance sheet date. This means that the decision to pay out a bonus must already have been decided before the year end - even though the payment won't actually take place until afterwards. Bonuses declared after the year end can't be offset against tax until the following year.

Tip: Making the decision will not be enough, you need to get the directors to formalise this decision at a Board Meeting and ensure it's minuted.

Tip: You will need to establish a logical methodology to record how you will calculate bonuses. It's perfectly acceptable to enter this as a percentage of pre-tax profits, for example.

Tip: Be careful not to trigger "payment" of remuneration (and liability to pay PAYE/NI) by being too definite about who is to receive the bonuses.

The answer is to put a general provision for bonuses that is non-specific between individuals.

Example:

A Company makes accounts up to 31 December. The Directors hold a formal board meeting on 27 November 2020 at which it is minuted that 20% of the company's profits before tax (PBT) for the year ended 31 December 2020 will be available as a bonus pot to selected employees and directors.

In February 2021, the finalised accounts show a PBT of £500,000 so the bonus pot is £100,000 (20%).

Because the decision was formalised, it becomes a liability of the company, which means you can put in a provision of £113,800 (the £100,000 plus the 13.8% Employers' NI) in the year-end accounts.

This will result in a corporation tax deduction of £21,622 ($£113,800 \times 19\%$)

Tip: Don't forget to actually make the payment, or post a credit to the Director's Loan Account, before the end of the nine-month window, otherwise the deduction cannot be made, costing you additional corporation tax until next year.

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