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TAX PLANNING FOR FAMILY COMPANIES

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Contents

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About Sarah Bradford

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Sarah writes widely on tax and National Insurance. She regularly contributes to:

- Business Tax Insider;
- Property Tax Insider; *and*
- Tax Inside Professional.

She is also the author of:

- Tax Efficient Way to Extract Cash from Your Company;
- IR35 – Tax Tips for Contractors;
- Tax-Efficient Business Exit Strategies;
- Cash Basis for Landlords;
- Director's Loan Accounts Explained;
- 101 Business Tax Tips; *and*
- 101 Practical Tax Tips.

All these guides are available for purchase from TaxInsider.co.uk.

1 About this guide

This guide looks at some of the tax issues of particular relevance to personal and family companies, both from the perspective of the company itself and the directors and shareholders behind the company. In particular, it explains the corporation tax charge on the company and outlines some tax planning strategies to minimise that charge in a legitimate fashion. It also explains how the company can obtain relief for any losses that it makes.

The guide also considers the role of the family company as an employer, and sets out the company's obligations in this role.

Where profits are made by a family company, those profits must be extracted if they are to be used personally by the family members. The guide looks at various ways in which profits can be extracted from a family company and the associated tax implications. It also suggests a strategy for the tax-efficient extraction of profits. The guide also explains the concept of a director's loan account and the tax consequences that arise if the account is overdrawn.

Finally, the guide takes a look at what happens when the current family members wish to retire, highlighting some valuable reliefs that are available if the business is passed on to the next generation, or sold.

1.1 Introduction

Many businesses are operated as family companies, and while some sizable businesses are family-owned, the vast majority of family companies are small companies. Statistics from Companies House reveal that two-thirds (4.8 million in total) are family-owned, and of those, only 16,000 are medium and large-sized businesses. Many family businesses have been in existence for several generations.

When setting up a new business that is to be family-owned, it is important to consider the set-up in advance. Issues to be addressed include:

- Who will be the directors?
- How are the shares to be allocated?
- Will there be more than one class or shareholding?
- What rights will attach to each class of shareholding?
- What skills do the family possess?
- What skills do the family lack, and how is any skill gap to be plugged?
- How are family members to be paid?
- How is conflict to be resolved?
- How is the business to be passed on?

It is important to appreciate that the family company is a separate legal entity from the family that runs it, and it is important to keep business and personal matters separate. The family company will pay corporation tax on its profits. The taxation of the company's profits is considered in Section 2. The company will also need to file accounts and an annual confirmation statement at Companies House and comply with company law requirements. Accounts must be filed within nine months of the end of the accounting period. The directors will also have legal responsibilities.