

# Taking Account

**MARSHALL ROCHE**  
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## **SMALL COMPANY DIVIDENDS UNDER THREAT**

It has now become quite common for small businesses to be formed into limited companies to save on National Insurance. The formula is simple – the owner is both director and shareholder. By taking a low salary, this leaves more in the pot to pay out as dividends. Whilst the salary attracts NIC, dividends do not, so keeping the salary low avoids unnecessary NIC.

It is not ideal for everyone – administration costs are higher and the penalties for getting things wrong are greater, but for those prepared for the extra work, who keep on top of it, there are savings to be made.

However, the Inland Revenue are on the case. They are challenging the dividends in more cases, claiming that they are salary unless it can be proved otherwise. The ‘proof’ needed is a clear indication on the part of the director, at the point when the dividend is paid, that it was in fact a dividend. Case law is patchy and a cheque stub saying ‘dividend’ is arguably evidence, but they are starting to ask for minutes of directors meetings to approve the dividends and dividend counterfoils (examples can be downloaded from our website at [www.MarshallRoche.co.uk](http://www.MarshallRoche.co.uk)).

It is therefore more important than ever that any amounts drawn from the company must be for a specific item, such as salary, dividends, etc., and should be drawn separately from each other, **not as one lump sum.**

***The only amounts that may be drawn from the company are:-***

- Net salary
- Dividends out of profits (remembering to leave 19% in the company, to pay the corporation tax)
- Reimbursed expenses (such as mileage allowance)
- Repayment of amounts loaned to the company by the director.

Remember – unless it’s one of the above, it’s the company’s money, not yours!

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## Claiming for lunch

A long standing court ruling states that the self-employed cannot claim for the cost of their lunch, even when this is eaten away from their normal place of work. However, the rules are different for employees, including directors of small limited companies.

It is clear from Inland Revenue rules that a meal taken during a journey is allowable as part of the cost of travel. Not so clear is whether meals on site are allowed, but most large employers allow staff to claim for a meal when 'away from the office', so the consensus view is that these count as part of the cost of the travel.

Many small contractors operate as limited companies and many work on site a lot of the time. A daily claim for lunch can amount to a tidy sum over a year. However, this is where the risk lies – in the simple principle that –

***The higher you put your head above the parapet, the more likely you are to get shot at..!***

If the Inland Revenue think you are getting away with too much, they might tackle the claim. But in order to disallow the lunches, they have to establish that **the site** is your 'normal place of work', which brings us a full circle – you can only claim for travel costs to the site if it is **not** your normal place of work, so if they challenge lunch, they challenge the lot!

Of course, if you believe that the site **is** your normal place of work, you cannot claim any travelling costs. In any case, if you expect to be on the site for more than 2 years, you cannot claim, from the time you form this view.

***But, otherwise, if you are 100% sure that you can prove that your home is your 'normal place of work' and not the site, then by all means claim the cost of lunch etc. on site...***

## Changing your car or van?

For sole traders and partnerships who turn over less than £60,000pa, the Inland Revenue will allow either a claim of 40p per mile for use of a van or car (up to 10,000 miles in a tax year – 25p above this), or a claim based on a proportion of the actual running costs, including depreciation. For a cheap to run vehicle, the mileage basis can work out better.

However, because depreciation is higher when you first get the vehicle, they do not allow you to claim that for a while, then change to mileage when it suits you – it has to be one or the other from the start.

*So when you change your car or van, record the business miles from that point, as well as keeping fuel receipts etc., so that, when you bring in your books, we can compare the two options and claim the one that is best for you.*

## Tax return reminder

*It's that time of year again – if you have not yet provided us with the information to prepare your tax return, please do so as soon as possible.*

***As always, if matters are left to the last minute then this risks a penalty, because we cannot do everyone's tax return at the last minute.***

*Thank you for your cooperation*

## Is it taxable income?

*Everyone from time to time receives odd amounts of money that they pay into their bank account, then promptly forget what it was.*

*Often it is a birthday gift or someone paying you back for the shopping you paid for or some similar innocuous item.*

*However, if the Inland Revenue ever suspected you of not declaring all your income and asked you what was that sum, would you know? If not, they will want to tax it as undeclared income.*

***The moral is to keep a note, perhaps on the bank statement, of what all these odd amounts are for.***

*This is particularly important for those in business or self-employed, who may be accused at some time of not putting it all through the accounts...*

