



## Nasa Consulting Contractor Newsletter May 2009

### The alternate budget - the 10 best ways to save tax and increase your income

Following the release of the 2009/10 budget, we have summarised the top 10 ways our clients are saving money. We have ordered them in a general rank of the most money saved and thank Messrs Brown and Darling that we are still allowed to legally keep some of our earnings. As many of our clients retain over 80% of what they earn, this is a good checklist to ensure you are doing the right things for the next year.

Our top ten list is:

#### 1. Stay out of IR35

I know we harp on about this issue and put much of our focus into it, but as it amounts to 15-20% in tax savings, we continually remind clients to focus on staying outside of IR35. We continue to review contracts and working relationships throughout the year for our clients to ensure strong IR35 positions.

#### 2. Share business earnings with a spouse

HMRC took a battering through the UK courts on S660 - the sharing of dividends with a wife or husband. They have continually said they are going to enact legislation on this, but are yet to do so. Sharing of dividends should therefore be a serious part of any family business. It saves approximately £7,500 of higher rate taxes per year. Shareholders must be over the age of 18 to benefit from this tax break.

#### 3. Keep your drawings down

As the 40% tax band kicks in when individuals have net income above £36 000, many clients have a tax retaining strategy of drawing this amount per annum as their private income. The taxes suffered are just the 20% corporate tax on profits (not full company income). As in point 2 above, each partner can draw this money without suffering higher rate taxes. Who says the chancellor has done away with tax breaks for the family?

#### 4. Pension contributions

As part of a salary sacrifice, your company can instead pay a pension contribution on your behalf. Whilst we have preferred financial advisors to handle any personal pension issues for you, we can advise that any pension contribution gets full tax relief in the company at 21%. It is treated just like an



expense and reduces your taxable profit.

## 5. Expand your business

As this was the subject of our last newsletter, we shall not elaborate further here. However each extra contractor billing through your company can equate to £500 - £1,000 per month in extra profit.

## 6. Boost your contract rate

With further training and experience we find that most freelancers increase their charge rates to clients. As well as using the tax breaks of freelance trading, the longer individuals trade the more we experience their rate increases and lifestyle satisfaction improves.

## 7. Flat rate VAT

Paying to HMRC a percentage of the VAT billed is profitable where a company has low VAT related costs. We find that most of our clients generate a few thousand pounds profit per annum, which more than covers the cost of our service charge.

## 8. Tax saving on expenses can be a false economy

There are only two ways of losing the earnings you generate into the company. Tax is one and starts at 21% of any pound of company profit. The other method is cost expenditure. If you incur an expense all the pound profit has gone, with nothing to draw as income. Those freelancers who find work closer to home and have less travel, accommodation and subsistence expenses usually have more money to draw.

## 9. Investing reserves in the Company name

Investing in property, shares, cash deposits etc in the company name usually provides a better return than drawing the money and investing in your personal name. Drawing the money often incurs higher rate personal tax, which means your investments starts at -22.5%.

## 10. Excellent Accountancy!

With strong bookkeeping, accounting, tax advice and use of the above strategies your relationship with your Nasa Consulting client manager is critical to your future financial success. We enjoy being involved with our clients planning and hope that our advice on the above can defy the works of Messrs Darling and Brown.