Business Update – Tax Planning

Information correct as at 09:00am on 17.02.2023

- Financial performance in the last year could mean bigger tax bills are due
- Discuss the year end profit situation with your accountant in good time
- Review all options for mitigating tax
- Put money aside for tax liability to avoid cash flow shocks in January and July
- Capital expenditure should be used strategically and not just for tax reduction

With the upturn in the dairy market experienced in the 2022-2023 financial year, early indications are that profitability has been better with some impressive year ends being highlighted. Of course, with profit comes tax. This year it is critical to take account of your forthcoming tax liability and factor payments into cashflows going forwards. Having detailed discussions your businesses accountant and consultant are vital. Here are some key actions that we suggest would be very worthwhile.

- Prepare a budget and monitor it actively looking carefully at cash surpluses generated.
- Make time to prepare estimated profit and loss forecasts ahead of the year end for discussion with your accountant. Ideally this meeting would also be prior to the year end.
- Having up to date valuations of livestock, deadstock and capital expenditure will help your accountant form an accurate picture of the potential tax liability.
- Get an accurate indication of the amount and timing of tax payments required by the HMRC. January and July 2024 have been highlighted as months where significant amounts of tax could need paying. Having knowledge of these payments will help prevent cashflow shocks and avoid potentially having to secure bank borrowing to meet a tax repayment.
- Once the amount of tax liability and timing of payments have been established, start a deposit account with a regular monthly direct debt to cover the amount of tax required. This will ease the burden and prevent sudden shocks to the cashflow. These saved funds can then be transfer to the Inland Revenue at the appropriate time.
- If required, look at potential suitable capital expenditure which is appropriate to business development.
- Make sure utility bills are allocated to the correct financial year. Some bills can land in the month after the year end. With the increase in electricity cost these can be sizeable so ensure that the payment of these bills goes into the previous year.
- Use your accountant's advice on capital allowances, valuation adjustments, pension contributions and tax efficient saving should also be considered.
- Further discussions on business structure and tax efficiency for example partnerships versus limited company status may also necessary. This may assist in managing future investment plans and succession.

Communication between the professionals in your team and planning forward is key this year to avoid hidden cashflow shocks and benefit from investing capital well.