

How business owners take their profits and what to take in to account.

Task 1 - In your business, or one you know well

How are profits taken by the owners?

- Salary (often kept low)
- Bonus
- Dividends
- Expenses (mileage allowances, subsistence allowances etc, re-imbursed entertaining)
- Benefits in kind (Company assets available for private usage e.g. cars, cameras, Lear jets, demo equipment)
- Pension contributions
- Loans
- Repayment of loans previously made to the company
- Employment of other family members
- Rent (Commercial premises used by company owned privately, inc home use as showroom)
- Equity investment in other group companies
- Shares / share options
- Retain profits for long term investment (increased return?)
- Schemes
- Sale of the business
- Death in service!
- Theft!

What factors are important in choosing this method and why?

- Balancing the interests of major shareholders and others (directors and employees)
- The level of profits influences the amount of a dividend.
- Objectives of the business and how the chosen method will impact on that (e.g. on a mortgage needed to grow the business, or the longer term exit plan)
- Keeping money in the business for security
- Overall cost of benefits provided by a company vs. personal funding from post tax income
- The business structure - Ltd Co / Partnership etc
- Taxation and National Insurance Contributions , including entrepreneurs relief effective 10% rate on a business sale.
- Relationship /engagement with HMRC
- Ethical considerations

Task 2 -Quiz- (all questions relate to 2012/13).

These are the correct answers

These are the answers given on the day

Question 1 What is the annual lower earnings limit below which employERS have no liability to class I NIC?							
A	£7,475	B	£7,488	C	£7,592	D	£8,105
		50%		50%			

Note that 2012/13 is the first year where the employERS limit has been lower than the employEES limit.

Question 2. What is the effective total tax rate for a small company paying a <u>dividend</u> to a 40% taxpayer?							
A	40%	B	48.9%	C	49.03%	D	57.82%
40%				60%			

Question 3. What is the effective total tax rate for a small company paying a <u>bonus</u> to a 40% taxpayer already earning more than £42,484?							
A	40%	B	48.9%	C	49.03%	D	57.82%
17%		51%		32%			

Question 4. Are you prepared for RTI?							
A	Fully. I know what needs to be done and have done it!	B	Partly. I know what needs to be done and it's on my list.	C	Slightly. I know I need to find out what to do.	D	No. What's RTI.
25%		25%		25%		25%	

Real Time Information (RTI)

Please visit our website for more information on RTI: www.shipleys.com/resources/current-issues

Shipleys Business Breakfast people

Please ask for a Godalming business breakfast team sheet or visit www.shipleys.com for more about our team and how they may be able to help you.



Steve Foster



Simon Robinson



Stuart Dey



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