

# Tax E-News

Welcome to the July 2025 edition of Tax E-News. We hope that you find this informative. Please contact us if you wish to discuss any matters in more detail.

## EXTRACTING FUNDS FROM AN OWNER-MANAGED COMPANY

“What’s the most tax-efficient way to take funds out of my company?” is perhaps the most common question put to accountants by their owner-managed company clients. The answer used to be simple: “Take a salary up to the level of the personal allowance and take the rest as a dividend”. Unfortunately, we are no longer able to give such a straightforward, one-size-fits-all answer. Put simply, the most honest answer we can give without performing individualised calculations is “It depends”!

If the director(s) need to take a market rate salary for commercial reasons (including obtaining finance in their own name or for making personal pension contributions), this should be a priority.

Individual calculations need to be carried out to arrive at the optimal profit extraction strategy for all but the most straightforward businesses. This is because the optimal extraction method will depend on a range of factors, including but not limited to:

- The company’s profit level, which determines its rate of corporation tax;
- The number of director/shareholders;
- The available distributable reserves in the company;
- The director/shareholder’s other income, which determines their marginal rate of income tax and the amount of Personal Allowance available to them.
- The director/shareholder’s age - those aged 66 or over do not pay employees National Insurance Contributions;
- The availability of the £10,500 Employment Allowance (EA) - the company might not qualify for EA or it might already be utilised by other employees’ salaries;
- Possible applicability of National Minimum/Living Wage legislation.

Consideration then needs to be given to the cash requirements of the director/shareholders. Extracting all available funds from the company is likely to incur a higher tax cost than extracting a set figure that is sufficient to cover living costs. Funds retained in the company will not be subject to income tax until they are taken out of the company by the director/shareholders. Alternatively, funds may be retained in the company with a view to realising a capital gain on the eventual sale or liquidation/striking off of the company. The capital gain will be subject to Capital Gains Tax and could be eligible for Business Asset Disposal Relief.

For many director/shareholders, the ‘classic’ extraction model of taking a salary equal to the £12,570 personal allowance, followed by dividends sufficient to cover their living requirements, is likely to be a tax efficient strategy, however, as can be seen above, there are many factors that may change the position.

## CHILDCARE ACCOUNTS CAN SUBSIDISE SUMMER CHILDCARE COSTS

If you have children under 12 who attend a nursery, after school club, playscheme or childminder, or you are considering sending them to a summer camp, you should think about setting up a tax-free childcare account. The government adds 25% to the amounts that you save in the account - up to £2,000 for each child - so £8,000 is topped up to £10,000 (a higher amount applies for disabled children).

The account is then used to pay Ofsted registered childcare providers. Note that it doesn’t need to be the child’s parents paying into the account; uncles, aunts, grandparents and others can also make payments. The government have noticed that many families who are eligible for this scheme are yet to set up their accounts, so if you are an employer you could bring this to the attention of your staff to increase the take up.

Note that parents are not eligible if either of them has adjusted net income in excess of £100,000 for the current tax year.

## **SALARY SACRIFICE FOR PENSION CONTRIBUTIONS**

Employees who join their employer's pensions salary sacrifice scheme stop paying pension contributions and instead sacrifice part of their gross salary in return for higher employer pension contributions. This means that both employers' and employees' National Insurance Contributions (NICs) are saved whilst maintaining the same amount of pensions savings. This is because employers' pension contributions are exempt benefits and they are not caught by the salary sacrifice rules.

The employers' NICs saving is the main benefit of such schemes. The employer can choose to use all or none of the saving to invest in the employees' pensions.

Before implementing a pensions salary sacrifice scheme, employers should consider the drawbacks of operating one, such as the extra administration and the risks of failing to comply with National Minimum Wage legislation. Thought should also be given to the interaction with Auto Enrolment obligations.

Communication with employees is also essential because their reduced gross salary may affect their entitlement to earnings-based payments such as bonuses, as well as statutory payments such as sick pay.

For a salary sacrifice to be considered 'successful' by HMRC it must meet certain requirements, including amending the employees' contracts.

## **MTD FOR INCOME TAX: INCOME FROM JOINTLY HELD PROPERTY**

If you are a sole trader or landlord with combined turnover from trade and property exceeding £50,000 in 2024/25, you're likely to be mandated into Making Tax Digital (MTD) from 6 April 2026. Individuals with lower income will be mandated at later dates. We have covered the general MTD requirements in previous newsletters, but it's time to focus on how MTD will apply to those with income from property that is jointly owned by more than one person.

The MTD legislation prescribes the various categories that should be used to record each individual item of income and expenditure. Any MTD-compatible software package or spreadsheet should enable you to categorise income and expenditure according to the prescribed categories for jointly held property income. Each quarter, year-to-date totals for each category will be totalled and submitted to HMRC in a Quarterly Update.

There are two easements that individuals with jointly held property income can take advantage of:

- Easement for individuals with turnover below £90,000 per annum - instead of using the various categories, it will be sufficient to categorise each item as either 'income' or 'expense'.
- Easement for jointly held property income - this involves recording just one quarterly figure for each of the prescribed income categories and one annual figure for each of the prescribed expense categories.

If an individual qualifies, it is possible to combine the two easements, which would mean that reporting income from jointly held property would entail entering one total income figure each quarter and one annual total expense figure in quarter 4.

## **VAT ON PRIVATE TUITION**

A recent First Tier Tribunal case gave us a useful reminder of the rules governing the VAT treatment of private tuition. In *Rushby Dance & Fitness Centre v HMRC* (TC09534), the lead appellant and three other dance tutors unsuccessfully argued that their dance classes qualified as VAT-exempt private tuition.

The exemption for private tuition is contained in the Value Added Tax Act 1994 (Schedule 9, Group 6, Item 2): "The supply of private tuition, in a subject ordinarily taught in a school or university, by an individual teacher acting independently of an employer."

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In order to qualify for the exemption, two main tests must be met:

- The teacher must be acting independently of an employer - this would generally apply to a sole trader or partner providing tuition in their own name. Any tuition carried out by an employee of a sole trader or partnership would not qualify, nor would any private tuition provided by a limited company.
- The subject being taught must be one that is ordinarily taught in a school or university - this is the issue that was considered by the tribunal. The subjects under consideration were ballroom dancing, Latin dancing, sequence dancing and 'dancercise' - a hybrid of dance and aerobics. The First Tier Tribunal found that none of the subjects were 'ordinarily' taught in schools or universities.

Previous tribunals have found that horse riding and golf are ordinarily taught in schools or universities and therefore qualify for the exemption. The list of tribunal-tested subjects that do not qualify is much longer and includes belly dancing, yoga and transcendental meditation! This shows how difficult it can be to ascertain the correct VAT rating for private tuition.

## DIARY OF MAIN TAX EVENTS

### JULY / AUGUST 2025

Date	What's Due
1 July	Corporation Tax for year to 30/09/2024, unless quarterly instalments apply
5 July	Last date for agreeing PAYE settlement agreements for 2024/25 employee benefits
5 July	Deadline for agents and tenants to submit returns of rent paid to non-resident landlords and tax deducted for 2024/25
6 July	Deadline for forms P11D and P11D(b) for 2024/25 tax year. Also, deadline for notifying HMRC of shares and options awarded to employees
19 July	PAYE & NIC deductions, and CIS return and tax, for month to 05/07/2025 (due 22/07 if you pay electronically)
31 July	50% payment on account of 2024/25 tax liability due
1 August	Corporation Tax for year to 31/10/2024, unless quarterly instalments apply
19 August	PAYE & NIC deductions, and CIS return and tax, for month to 05/08/2025 (due 22/08 if you pay electronically)