

YOU AND YOUR FAMILY

Personal Tax Planning for Business Owners

How to look at your own tax position alongside the business's, and the allowances, reliefs and habits that make a difference.

FOR: OWNERS, DIRECTORS AND THEIR FAMILIES • SOME EXPERIENCE

Your tax and the business's tax are connected

Owners tend to think about the business's tax in one conversation and their own in another, or not at all. But every decision about the business, such as how much profit to keep, how to take income, whether to buy a property, or when to sell, has a personal tax result, and the reverse is also true. The best results come from looking at both together, and planning before the tax year ends on 5 April, not after.

Know where you stand

Start with a clear picture of your income for the year: salary, dividends, interest, rental income, benefits, and any gains. Then look at which tax bands and allowances you fill. Income tax rates rise in steps, and there are separate rates for dividends, savings and capital gains. At higher income levels the tax-free personal allowance is gradually withdrawn, which produces a steep effective rate on income in that range. Knowing where you are, and how close you are to a band edge, shows where planning will help.

The allowances most people can use

- **Personal allowance**, which everyone has, though it can be lost at higher income.
- **Dividend allowance and savings allowances**, which are limited and change.
- **Capital gains annual exempt amount**, small and use-it-or-lose-it each year.
- **ISA allowance**, a yearly limit for tax-free saving and investing.
- **Pension annual allowance**, for tax relief on contributions.
- **Marriage allowance**, for some couples, where one partner transfers a part of their personal allowance.

Each resets on 6 April, so unused allowances are generally lost.

Who this is for

- Owners whose tax bill surprises them
- Directors with a spouse or family
- Anyone nearing a higher band

Key points

- Plan before 5 April, not after.
- Look at the business and your personal tax together.
- Use allowances each year. Most cannot be carried over.
- Real changes in ownership or income, not paper ones.
- Avoid aggressive schemes. They often fail.

Common ways to plan

- **Pension contributions**, personal or by the company, which can reduce tax and build savings, within limits.
- **Timing of income**. Choosing when to take dividends, bonuses or a sale can shift income between tax years and bands.
- **Using a spouse's or partner's allowances**, where they genuinely own part of the business or an asset, and not merely on paper. HMRC looks closely at arrangements where one partner's income is diverted without real substance.
- **Charitable giving**, through Gift Aid, which can extend relief if you pay higher rates.
- **Tax-efficient saving and investing**, such as ISAs, and, for those who want to take risk, certain reliefs for investing in qualifying young companies.
- **Making use of capital gains allowances**, by planning disposals across tax years.
- **Wills and succession planning**, to reduce future inheritance tax, covered in our other guides.

Before 5 April

- Where do we stand this year?
- Have we used the allowances?
- Pension contributions?
- Spouse's allowances?
- Planned disposals?
- Cash for the bill?

Be wary of promises

Some schemes promise to cut your tax dramatically. Many have been challenged by HMRC, and users have faced bills, interest and penalties long after the event. If it sounds too good to be true, or if it involves unusual steps with no commercial purpose, ask us before you sign anything.

A yearly routine

1. **Autumn**: project your income and tax for the tax year.
2. **Winter**: decide pension contributions, dividends and any asset sales.
3. **Before 5 April**: put the decisions into effect and use the allowances.
4. **After the year-end**: collect records for your return, and review.

Pay attention to cash

Self Assessment bills include payments on account, which may be due before you have earned the income they relate to. Plan for them. A tax plan that leaves you short of cash is not a good one.

Related guides

If this is useful, you may also want:

- Paying yourself
- Pensions for owner-managers
- Inheritance tax and your business

How King Street can help

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We review your personal and business tax together, project your position each autumn, recommend actions before the year-end, and prepare your Self Assessment return. We tell you straight if a proposed saving is not worth the risk.

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