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CHARTERED ACCOUNTANTS

## Beginners Guide to Tax Planning For Directors and Well-paid Employees

If your company is going to pay its directors or well paid employees a bonus then how about paying it out at **96% takehome?** If the individual is a 40% or 50% taxpayer then this represents a considerable saving for the individual and the company will also make a saving.

The particular remuneration planning scheme here is suitable for bonus rather than regular salary payments and is a good alternative to paying dividends for owner-managed businesses as well as a bonuses, particularly as the company can claim tax relief on the expenditure.

Realistically the individual employee needs to already be a 40% taxpayer, ie earning more than about £43k. The current minimum amount to put through the scheme is £100,000 and there is not currently an upper limit.

### Interested! What next?

If you or your company is interested in looking at this in more detail then get in touch! Speak to one of our Tax Saving Specialists who will discuss it briefly with you over the phone. If you want to go further after the phone call, we will set up a meeting so that you can discuss it in detail and ensure that all your questions are answered.

### Is Tax Planning Legal?

Tax planning has always been with us and historically we have the examples like blocking up windows to avoid the Window tax of 1697. The UK now has some of the most complex tax rules which means that tax planning can be equally complex. The taxman is obviously the guardian of the UK tax base and from time to time has challenged various tax planning schemes in the courts – which is very useful as the courts have defined various points in case law. For example, Lord Justice Denning MR said **"The avoidance of tax may be lawful, but it is not yet a virtue"** and Lord Justice Tomlin said **"Every man is entitled if he can to arrange his affairs so that the tax attaching under the appropriate Acts is less than otherwise would have been"**. Which is a bit wordy, but essentially if it is legally possible then you are entitled to take advantage of it.

The other point to bear in mind is that there is a difference between tax evasion and tax avoidance. Evasion is the illegal evading of tax – for example by not telling the taxman about your income. Avoidance is the use of tax planning to organise your tax affairs to avoid a tax liability. Some of the taxman's publications are a little confusing over the difference between evasion and avoidance and the politicians often talk about the 'right amount of tax'. As a professional firm of Chartered Accountants we like to do tax planning for our clients after all **"We want you to pay the**

**right amount of tax...** but through the use of legal tax avoidance, your tax bill...**might just be a lot less than you think!"** So the answer to the question 'is it legal' is Yes! And all of the tax planning we do is legal and for the more complex and sophisticated planning techniques there are barristers' opinions to confirm this.



### Is it Risky?

Any sophisticated planning scheme carries the inherent risk that the taxman will challenge it. However, this particular remuneration planning strategy is considered to be very robust. The strategy is within the DOTAS regime and HMRC are therefore aware of it and the company may therefore receive questions from the taxman.

A fighting fund has already been established with sufficient funds to respond to a HMRC challenge in the Tax Tribunals. In the event that your business is picked for a challenge by the taxman then the fighting fund will takeover and deal with their questions.

### CAVEAT

This Beginners Guide is no substitute for proper specific professional advice and no liability can be accepted for any acts or omissions taken as a result of reading it. Tax law is complex, changes frequently and much will depend upon your individual, precise and detailed circumstances. Contact us via our website [www.vowles.co.uk](http://www.vowles.co.uk)

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