Sibbalds
CHARTERED ACCOUNTANTS

PayLessTax
2025 Summer **Edition**

Members Voluntary Liquidation (MVL)

One of the options when winding up a solvent company is to go down the MVL route.

Both the board of directors and at least 75% of the company shareholders have to agree to it. **The directors must swear a Declaration of Solvency which has to be backed up by a balance sheet as evidence to that fact, along with a resolution to appoint a liquidator, a licensed insolvency practitioner**.

That appointment is advertised in the London Gazette and a notice to creditors has to be published so that potential creditors can submit claims against the company. Subject to any legitimate claims being met, after 21 days the liquidator can distribute any remaining assets (cash or in specie) to the shareholders.

Once the liquidator has distributed the surplus funds to the shareholders, finalised tax matters with HMRC and filed the final return to Companies House, the company is dissolved and removed from the Companies House register three months later.

For tax purposes the funds distributed to the shareholders are usually treated as a capital distribution as opposed to a dividend distribution, and therefore liable to capital gains tax which may result in the first £3,000 being exempt from tax altogether and the excess being taxed at a rate as low as 14% and no more than 24% at its highest point.

Care needs to be taken that a recipient of such surplus funds does not carry on a similar trade or is involved in a similar trade to that of the wound up company within 2 years of receiving the payment. If so, HMRC may argue that one of the main purposes of winding up the company was to avoid or reduce that shareholder's level of tax. If HMRC are successful in that view, the distribution could be treated as an income one and not capital and therefore taxed as a dividend potentially at a rate as high as 39.35%.

It is also wise to consider paying any future corporate tax liabilities in advance of entering into the MVL process as this will prevent HMRC, as a creditor, trying to impose a statutory interest rate of 8% (15% in Scotland) on any outstanding tax balances covering the commencement date of the liquidation up to the point the payment is paid.

Likewise, if there are any directors loans outstanding it would make sense to repay them back to the company. It would prevent the liquidator either calling in the loans or effectively writing them off and triggering an income tax charge as high as 39.35% and an employers (15%) and employees (as high as 8%) national insurance charge. If the loan is repaid, upon winding up the liquidator could effectively pay the funds back out again at a rate possibly as low as 14%.

Before looking at winding it up consider whether it is worthwhile keeping the company shell but using it for another purpose, for example as an investment company.

TIP... Bearing in mind the additional cost in appointing a liquidator, the cheaper, but more hands on voluntary strike off and dissolution process might suit certain companies. We would be delighted to discuss all options with you.

Salary Sacrifice Scheme (SSS) – An option

Under an SSS, an employee can contractually agree to forgo a portion of their salary. This in turn reduces the amount of tax and national insurance (NI) that individual has to pay. The employer also benefits from a reduction in its employer NI liability.

That means that the salary which has been given up, along with the tax and employees NI savings made can be used for the individual's enjoyment of non-cash benefits whilst either not affecting their net take home pay or in some cases, increasing it.

Those non-cash benefits might be:

a) Contributions into a pension scheme.
b) Employer provided pension advice.
c) Access to low emission cars.
d) Workplace nurseries.
e) Employer provided child care voucher schemes entered into on or before 4th October 2018.
f) Bicycle and cycling safety equipment.

Example

Pre salary sacrifice

- Mary works for Vale Ltd. Her salary is £50,000. £4,000 is paid into her work pension scheme - £2,500 by her and £1,500 by Vale Ltd.

- Mary's net take home pay after tax and NI is £37,519.

- Vale Ltd suffers employers NI of £6,750.

Post salary sacrifice

- Mary sacrifices £2,500 of her salary reducing her annual salary down to £47,500.

- Vale Ltd pay across her sacrificed salary of £2,500 plus their previous £1,500 into Mary's workplace pension. A total of £4,000 pension contributions.

- **Mary's net take home pay after tax and NI is £37,719, an uplift of £200**.

- **Vale Ltd suffer employers NI of £6,375. A saving of £375**.

- Mary could top up her pension by a further £200 whilst retaining her original take home pay and enhancing her pension pot at the same time.

- An altruistic employer could consider topping up Mary's pension by some or all of the employers NI savings it has made.

Care needs to be taken that the contractual changes are drawn up correctly. It is also important to note that a reduced salary could impact on entitlements like maternity/paternity pay, mortgage applications and some state allowances. However, on the flip side, it may mean that person could be entitled to claim more tax credits depending upon their revised circumstances.

A person cannot enter into a SSS if the reduced cash earnings takes them below the national minimum wage threshold. It is wise that the employee should have a conversation with their employer before agreeing to a sacrifice to ensure that things such as pay increases, overtime rates and pension benefits won't be negatively impacted by agreeing to a salary reduction. This can usually be achieved by applying the notional salary rule, effectively using the original salary figure for say working out the pay increase to the revised salary come the annual pay review.

If the employer has a number of employees who wish to take up the salary sacrifice option the employers NI savings could be significant. Bearing in mind the increase in the employers NI rate from 13.8% to 15% from 6th April 2025 and the threshold at which point it applies dropping from £9,100 to £5,000 per employee, the savings for the business could be significant whilst also keeping a happy workforce as a result of the non-cash benefit arrangement.

TIP...

If you want to look at the options surrounding SSS along with help on implementing such an arrangement, please do not hesitate to contact us.

Opt for share schemes?

With taxes as high as 45% (48% in Scotland) and the national insurance (NI) rate at 15% (employers), the traditional remuneration package made up of a mix of high salary, performance bonuses and non-cash benefits such as a company car and health insurance for example, makes incentivization less attractive for both employer and employee alike.

There are, however, a number of share scheme arrangements out there worth considering which can also help with staff retention and still be tax and NI efficient.

The discretionary growth share plan is one such scheme.

- New shares are created with limited or no income or voting rights.
- The shareholder does though have capital rights thereby enjoying the increase in value of the business once a pre-determined value has been breached.
- The initial market value of these shares should be very low as there are limited rights and the pre-determined value has not been met.
- Employees acquiring those shares at market value should therefore avoid tax and NI on purchase.
- When the shares are sold, any gain the employee makes on sale should be liable to capital gains tax at no higher than 24%.

The enterprise management incentive (EMI) scheme is a discretionary government approved share option arrangement.

- Certain trades are excluded from using EMI such as property development, farming, hotels and legal and accounting services.
- It must not be a subsidiary company and the gross asset value must not exceed £30 million and it should have fewer than 250 full-time equivalent employees.
- The option to acquire the shares must be exercised within 10 years of the grant.
- The exercise price must be equal to the market value of them as at the date of the granting of the option.
- No tax or NI should arise on the grant or exercise of the option.
- Upon the sale of the shares, the first £1 million of the gain should attract a capital gains tax rate of 14% (2025/26 tax year) and 18% (2026/27 onwards).
- At the date of exercise the company should get a corporation tax deduction based upon the difference between the exercise price and the market value of the shares as at the date of exercise.

TIP... There are other share arrangements which might be more appropriate depending upon the particular circumstances involved such as the company share option plan or the SAYE scheme or share incentive plan or the employee ownership trust. Please do not hesitate to contact us to discuss this further if this is of interest to you.

Professional fees – Don't Miss Out

If an employee personally pays annual fees to a professional body which relates to the work that they do, they may be able to claim tax relief on the subscriptions paid.

For that claim to be successful, that particular body has either got to have been approved by HMRC or the statutory legislation itself specifically does so. Those falling under the legislative umbrella include health professionals, solicitors, architects, teachers and driving instructors.

HMRC mark their acceptance of a particular body by including them within their List 3 booklet which details a multitude of professional bodies who have received the Revenue's stamp of approval. List 3 can be found on the HMRC website.

If the individual is paying for the qualifying fees out of their own pocket, they can make a claim either via their self-assessment tax return or by accessing an HMRC online portal specifically set up to claim tax relief on employment related expenses or call the Revenue to change their PAYE code number to reflect that subscription cost. An individual can go back up to 4 prior tax years and obtain a refund, if prior year claims have not be made.

Of course, it might be that instead of the individual effectively paying the fees, the employer might pick up the tab, either by reimbursing the employee or by paying the professional body direct. As long as they are qualifying subscriptions then there are no tax consequence for the employee and the business could claim it as tax deductible for the business.

However, it is important to note even if the body is on List 3 or specifically reflected within the legislation an individual can only claim tax relief on annual fees. Entrance fees or lifetime membership subscriptions to a professional body do not count.

If an employer pays for or reimburses those types of subscriptions, then the employee could find themselves being hit for an unwanted tax bill and the employer with a potential national insurance liability.

TIP... If you think you have missed out on tax relief relating to professional subscriptions, contact us to see if they qualify.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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