the tax guys™

CHARTERED TAX ADVISERS | CHARTERED CERTIFIED ACCOUNTANTS

12 TAX MISTAKES EVERY CONSTRUCTION COMPANY MAKES

BY JONATHAN AMPONSAH CTA FCCA

As a busy construction company or tradesman, you're wearing many different hats and your focus is probably on making more money or getting the right team in place. Sometimes seeing your accountants can feel like a trip to the dentist.

However, if you're not talking to them, then in the current climate of complicated tax rules, it means you're probably making the following tax mistakes.

Claiming too much use of home expenses

There is absolutely nothing wrong with claiming these expenses. The problem is that by overclaiming them, you potentially end up paying a lot more tax in capital gains tax when you come to sell your property. Why? Because the value of your home would have gone up and you lose generous tax relief on the part of your home you turn into a business.

Retrospective tax planning

You're busy and fire fighting in the business. You take so many decisions and then at the end of the year you try to piece some clever planning together even though all the events have already happened without much thought.

Unless you prepare and plan for taxes, it's likely that you will pay more tax. Now here's a thought. You do have some sort of a business plan even if one page right?

How about a tax plan?

Not keeping proper records

Those pesky receipts, collating and keeping them all is not a fun job is it..? But for VAT registered business owners, not keeping them is a common mistake akin to literally throwing or giving away your piggy bank to HMRC. So the next time you fail to get that VAT receipt, consider whether you will also dip into your pocket, grab those coins and throw them away.

The good news is that with so many apps on the market, the task of keeping proper tax records has become less taxing. With apps like Auto Entry, Expensify and Receipt Bank you can easily snap the receipts on the go and forget about them. The technology and your accountant would take care of the rest.

Wasting over £26,000 tax allowances

They say that tax allowances are like your muscles. If you don't use them you lose them. And did you know that if you add up the income tax allowance, capital gains tax allowance, savings allowance, and dividends allowance, you get a whopping £26,000 plus allowances in the year? It's not uncommon to see many of these go to waste.

If you're an entrepreneur who has dabbled in cryptocurrencies, make sure you make the most of the capital gains tax allowance.

And do consider how to also make use of the allowances of your spouse and children.

Missing out on these 8 generous tax breaks

There are more tax breaks within the law that most entrepreneurs miss out on but here are the most common ones

- Research and development
- Bad debt provision (make sure you have taken steps to recover the money)
- Capital allowances on equipment used for the business including fixtures that are part of the building you have bought
- Lease premiums
- Warranty provisions
- SEIS and EIS tax reliefs
- Entrepreneurs relief

The reason why most of these reliefs get missed is that you actually have to make a claim to get them.

Not putting aside money for tax

Cashflow can be a huge problem but when it comes to VAT and PAYE, the taxman's stance is simple; it's not your money. For income and corporation taxes, waiting till December or January to find out that you have this huge tax bill but no funds put aside is a common mistake entrepreneurs make.

To avoid this problem, look at the business model, plan for taxes and open a separate bank account to put cash away for taxes.

Poor or no evidence to back up claims

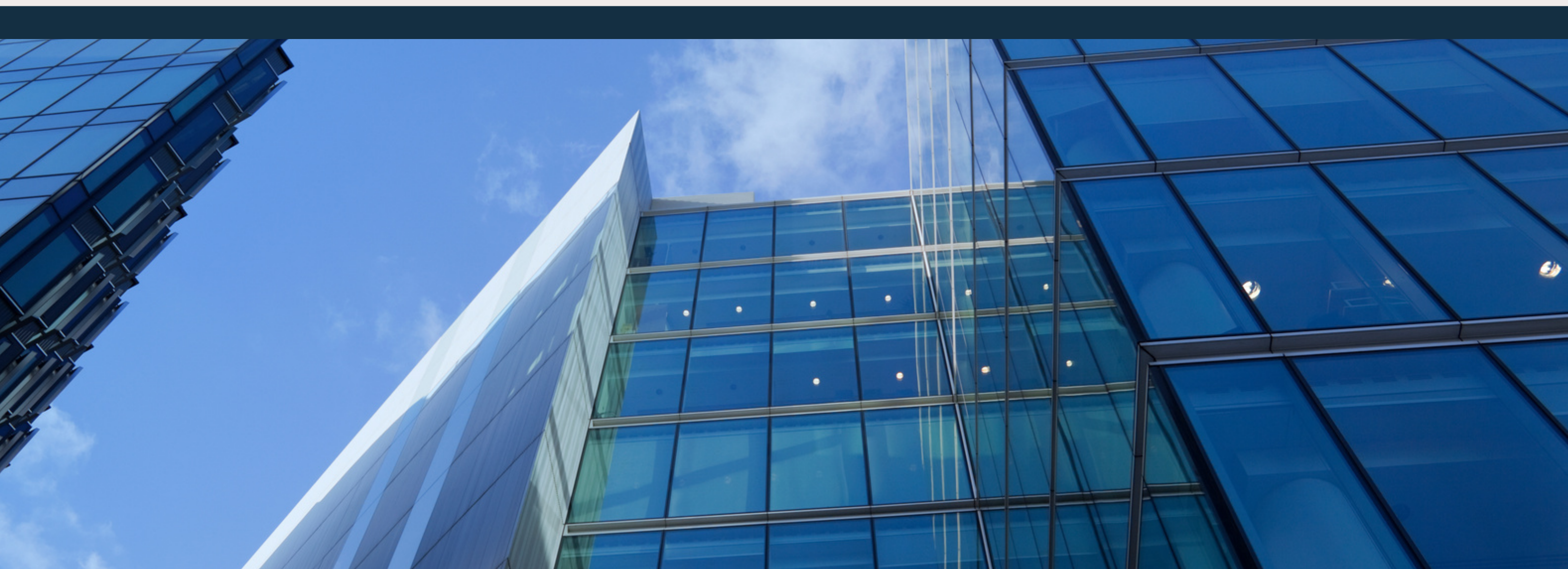
The rules on what expenses can/cannot be claimed are not as straightforward as you may think. By not taking extra care or failing to appoint a good accountant or tax adviser, most entrepreneurs make this costly but avoidable mistake

Here's an example: a business owner who rented accommodation in Scotland in order to avoid expensive hotel bills during a long business trip was denied tax relief because the evidence he submitted was not sufficient to meet the so-called "wholly and exclusively for the purpose of trade" test.

Tip - When claiming or incurring expenses for business, ensure that the primary purpose is for the business and have all the supporting documents to back this up.

Not reviewing the business structure

Maybe, when you started, you were rightly advised to go for a sole trader, partnership or a limited company. But the rules keep changing. When was the last time you reviewed and compared different tax structures?



Wasting Business Property Relief

Your business has value. It's your life's work. A common mistake I see is a lack of planning around how the business should be passed on tax-free when you're not here. The rules, subject to some conditions, allow your life's work to be enjoyed tax-free by your loved ones. But if you do not have a Will or if in your Will you've passed the business to say your spouse, you're wasting this generous tax relief.

Getting self-employment status wrong

This is a complex area and one which keeps changing. Whilst you may safely get your own status right as an entrepreneurial business owner, how confident are you that your freelance workers and associates are genuinely self-employed? HMRC is cracking down on the so-called 'gig economy' and is putting the onus on entrepreneurs to get this right.

Buying the shares of your competitor

Instead of organic growth, you've decided to acquire your competitor. In your haste to get the deal done, you buy the shares of the company instead of the assets. This is a common tax mistake because whilst buying the shares is good for the seller, you lose the tax reliefs associated with buying the assets.

Buying the shares of your competitor

Instead of organic growth, you've decided to acquire your competitor. In your haste to get the deal done, you buy the shares of the company instead of the assets. This is a common tax mistake because whilst buying the shares is good for the seller, you lose the tax reliefs associated with buying the assets.

Accepting 30% more tax when selling your company

So it's time to put your feet up and retire. You've decided to sell up but you're dealing with a well-informed tax buyer who wants to pay more for the company's assets but he or she is not interested in the shares. You're tempted and you agree to sell the assets. You've potentially lost out on a 10% tax rate and are now looking at over 30% tax. Why 30%? So the company sells the assets and it pays corporation tax at, say, 19%. You then need to extract the cash out and let's be conservative and say you pay 20% income tax. That's 39% potential tax.

CONCLUSION

Take a look at your business plan, and your tax plan, and check you are not falling foul of any of these 12 mistakes – and if you aren't sure, or need help, then call in a reputable accountant. The fees they charge you are often mitigated by the amount of tax they can save you.

NEED HELP?
BOOK A CALL WITH US

ABOUT THE AUTHOR

Jonathan Amponsah CTA FCCA is an award winning chartered tax adviser and accountant who has advised many clients over the last decade on tax.

He has successfully defended clients against HMRC at the tax tribunal.

Jonathan is the founder and CEO of The Tax Guys.