

Profit extraction - Selling to your company

Personal assets

You may have some office equipment or furniture that could be made use of by the company. It may be pointless for the company to go out and buy new ones and you wonder if it could be worthwhile selling your surplus equipment to the company.

The answer is probably yes. If you put equipment into the company that is worth £2,000, you can then draw this amount out of the business tax free. If you are a higher rate taxpayer, at today's rates it would cost £500 (£2,000 x 25%) in tax to take the equivalent as a dividend and more if you took it as a bonus or additional salary.

However you do need to get the paperwork right in case of a challenge from the Revenue.

Invoice

When selling an asset to the company, you should always provide an invoice from you to the company that lists the items together with individual prices.

Price

As a director, the Revenue rightly assumes that you have some influence over the company's decisions. The Revenue will look to tax transactions between you and the company under the "connected persons" rules. This means for tax purposes, all transactions between connected persons are deemed to take place at market value even if no money changed hands. This means that in theory, you can charge the company whatever you like, but if you charge it at more than the market value, you should be taxed on the difference as though it was salary.

You should therefore obtain documentary evidence of the second-hand value of the items you are selling to the company. This can be in the form of published guides in the case of a car or van, or valuations from experts or specialist second-hand trading web-sites. In all cases, attach the proof to the invoice that you created for selling the assets to the company.

If you don't need the money straight away, you can leave the amount owing to you from the sale of the assets to the company as a loan. In practice this is often added to your director's loan account and you can draw the money when cash becomes available.

Your company can claim a tax deduction for the cost of the assets. This will probably be at the capital allowances rates.

As a director of the company, you are known as a related party. All significant transactions with related parties need to be shown in a note in the company's accounts. You should therefore ensure that your accountant is aware of any such transactions.

Disclaimer

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