The big 10

There are 10 tax mistakes every nursery owner makes, says Jonathan Amponsah. Read on to find out how to avoid them

As a nursery owner, your mind is occupied with so many thoughts and you're constantly wearing different hats and firefighting. What's more, 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 may well be making some or all of the following tax mistakes.

1 Spending £1000 to save £200 or £400

You've made some profits, which means that you have tax to pay. But you can't see the cash in the bank account. You've heard that if you spend some money, you can deduct it against your income and reduce your tax. So, you go ahead and purchase some equipment on finance for, say, £1,000. The question is: do you really need that kit? If not, you have just swapped £1,000 for £200 if you're a basic rate tax payer or £400 if you're a higher rate tax payer. It is best to avoid spending money just so that you can reduce your tax bill. It's far better to find a way to pay the tax and keep your after-tax income.

2 Not planning for tax

You do have some sort of business plan even if it's a one-page plan, right? How about a tax plan? Do you have one of these? Unless you take the time to prepare and plan for taxes, it's likely that you will pay more tax than necessary. The mistake I see often is some sort of retrospective tax planning, which doesn't work, or no planning at all.

3 Keeping no receipts or records

Those pesky receipts - collating and keeping them all is not a fun job is it? But if you don't keep them and there's no other evidence to support the expenditure, you are effectively handing over your piggy bank to HMRC and you won't be able to claim those expenses.

The good news is that, with so many apps on the market, the task of keeping proper tax records has become less taxing (sorry about the pun!). Apps such as Auto Entry, Expensify and Receipt Bank all allow you to easily snap the receipts on the go and forget about them. The technology and your accountant can then take care of the rest.

4 Wasting over £26,000 tax allowances

They say that tax allowances are like your muscles. If you don't use them, you lose them. 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+ allowances in the year? It's not uncommon to see many of these go to waste. So, make use of them when you can.

5 Missing out on five generous tax breaks

There are more tax breaks than this within the rules that most nursery owners miss out on, but here are the most common ones:

- bad debt provision (make sure you have taken steps to recover the money)
- capital allowances on equipment used for the business including fixtures which are part of the building you have bought
- lease premiums
- Seed Enterprise Investment Scheme (SEIS) and Enterprise Investment Scheme (EIS) tax reliefs
- £40,000 lettings relief (this might be scrapped by HMRC).

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

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6 Not putting aside money for tax

Cashflow is usually a huge problem for nurseries. However, when it comes to tax, HMRC's stance is simple: it is 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 nursery owners (and other businesses) make.

To avoid this problem, look at the business model; plan for taxes. And open a separate bank account to put cash away so that it will be available when you need it to pay your taxes.

7 Ignoring the power of tax-efficient pensions

If your nursery contributes into your own pension scheme as part of your remuneration, your company gets to pay less tax. Let's say you've been doing this for a few years and you now have, say, £80,000 in the pension pot. It is possible for the pension scheme to buy the commercial property where you run the nursery or look for another suitable property. You then get to control the rent and get additional tax benefits that come with the pension scheme.

8 Failing to consider staff suggestion scheme

Payroll is one of your biggest costs. Did you know you can pay your staff tax-free income for suggestions that benefit your nursery? Well, you can, and, in fact, there are two kinds of awards:

- encouragement awards - for good suggestions, or to reward your employees for special effort
- financial benefit awards - for suggestions that will save or make your business money.

Encouragement awards are tax-free up to £25. But financial benefit awards are exempt up to £5,000. That's right: £5,000. But before you go ahead and pay your staff tax-free income, please note that as with all tax reliefs and tax exemptions, there are conditions to meet. Speak to your accountant.

9 Wasting Business Property Relief

Your nursery has value even if it doesn't feel so at times - you've given so much of your life to it. A common mistake I see is lack of planning around how the nursery 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 have passed the business on to say your spouse, you are wasting this generous tax relief.

10 Paying 29 per cent more tax when selling your nursery

Let's imagine it is 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 is not interested in the shares. You're tempted and you agree to sell the assets. Whoops! You've potentially lost out on a 10 per cent tax rate and are now looking at 39 per cent tax.

Why 39 per cent? This is because the company sells the assets and it pays corporation tax at, say, 19 per cent. You then need to extract the cash. Let's be conservative and say you pay 20 per cent income tax. That's 39 per cent potential tax rather than 10 per cent.

> *'...if you don't keep [your receipts] and there's no other evidence to support the expenditure, you are effectively handing over your piggy bank to HMRC and won't be able to claim those expenses'*

What to do!

The best way to avoid these mistakes is to plan ahead. If you're unsure, then call in a reputable accountant. The fees they charge you are often mitigated by the amount of tax they can save you. ■

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