

Profit Extraction Planner

The Profit Extraction Planner allows the accountant to easily compute the tax effect of alternative profit extraction strategies for clients.

It guides the user to determine the optimum use of the Personal Allowance, the Savings Allowance, the starting rate band for savings income and the Dividend Allowance.

Up to six director-shareholders can be catered for.

Set out below are various screen shots of the software which demonstrate the help given to making decisions about profit extraction.

First part of input screen

A	B	C	D	E	F	G
1	Enter number of director-shareholders			2		
4				2019/20	DS_1	DS_2
6	Other income except sal/interest/divs from company				£	
7	Interest				Nil	Nil
8	Dividends				Nil	Nil
9	Other income				Nil	Nil
11	Based on above figures, remaining allowances are:					
12	Personal Allowance				12,500	12,500
13	Starting rate band and savings allowance remaining available				6,000	6,000
14	Dividend Allowance				2,000	2,000
16				£		

YELLOW CELLS ARE FOR ENTRY OF DATA AND FIGURES.

ENTER NUMBER OF DIRECTOR-SHAREHOLDERS WILL REVEAL MORE COLUMNS

ENTERING OTHER INCOME WILL REVEAL REMAINING ALLOWANCES.

Results of entry of other income

A	B	C	D	E	F	G
1	Enter number of director-shareholders			2		
4				2019/20	DS_1	DS_2
6	Other income except sal/interest/divs from company				£	
7	Interest				400	100
8	Dividends				Nil	Nil
9	Other income				10,000	Nil
11	Based on above figures, remaining allowances are:					
12	Personal Allowance				2,500	12,500
13	Starting rate band and savings allowance remaining available				5,600	5,900
14	Dividend Allowance				2,000	2,000
16				£		

ENTERING OTHER INCOME WILL REVEAL REMAINING ALLOWANCES.

Second part of input screen

	A	B	C	D	E	F	G
1			Enter number of director-shareholders		2		
4					2019/20	DS_1	DS_2
18			Company profits		Nil		
19			Salaries/bonuses		Nil	Nil	Nil
20			<small>If salaries and other income above PA, starting rate band on interest is not fully available</small>				
21			<small>Starting rate band and savings allowance remaining available</small>			5,600	5,900
22			Employer NI on salaries		Nil	Nil	Nil
23			<small>If Employment Allowance available, enter amount here</small>	Nil	Nil	Nil	Nil
24			Interest to director-shareholders		Nil	Nil	Nil
25			<small>Consider employer pension contributions. If adjusted income plus pension contributions are above £150,000, tax efficient contributions are severely restricted</small>				
26			Employer pension contributions		Nil	Nil	Nil
27			Profit before corporation tax		Nil		
28			Corporation tax		Nil		
29			Profit after corporation tax		Nil		
30			<small>Dividend allowance remaining</small>			2,000	2,000
31			<small>Amount before higher rates apply</small>			39,600	49,900
32			<small>Amount before Net Adj. Income restriction</small>			89,600	99,900
33			Dividends		Nil	Nil	Nil

ENTERING SUGGESTED SALARIES WILL SHOW IF THIS AFFECTS 0% TAX RATES ON SAVINGS INCOME. ALSO FURTHER DOWN SCREEN, WILL SHOW AMOUNTS BEFORE HIGHER RATES OF TAX WILL APPLY

Second part of input screen – entry of suggested salary

	A	B	C	D	E	F	G
1			Enter number of director-shareholders		2		
4					2019/20	DS_1	DS_2
18			Company profits		200,000		
19			Salaries/bonuses		(20,632)	12,000	8,632
20			<small>If salaries and other income above PA, starting rate band on interest is not fully available</small>				
21			<small>Starting rate band and savings allowance remaining available</small>			600	5,900
22			Employer NI on salaries		(465)	465	Nil
23			<small>If Employment Allowance available, enter amount here</small>	Nil	Nil	Nil	Nil
24			Interest to director-shareholders		Nil	Nil	Nil
25			<small>Consider employer pension contributions. If adjusted income plus pension contributions are above £150,000, tax efficient contributions are severely restricted</small>				
26			Employer pension contributions		Nil	Nil	Nil
27			Profit before corporation tax		178,903		
28			Corporation tax		(33,992)		
29			Profit after corporation tax		144,911		
30			<small>Dividend allowance remaining</small>			2,000	2,000
31			<small>Amount before higher rates apply</small>			27,600	41,268
32			<small>Amount before Net Adj. Income restriction</small>			77,600	91,268
33			Dividends		Nil	Nil	Nil

£12,000 SALARY FOR DS_1 TRIGGERS OFF: NI LIABILITY, REMOVAL OF STARTING RATE BAND, AND £400 OF SAVINGS ALLOWANCE INTEREST AND EMPLOYER PENSION CONTRIBUTIONS CAN BE ENTERED IF RELEVANT

Third part of input screen – entry of suggested dividends

	A	B	C	D	E	F	G
1			Enter number of director-shareholders		2		
4					2019/20	DS_1	DS_2
24			Interest to director-shareholders		Nil	Nil	Nil
25			<small>Consider employer pension contributions. If adjusted income plus pension contributions are above £150,000, tax efficient contributions are severely restricted</small>				
26			Employer pension contributions		Nil	Nil	Nil
27			Profit before corporation tax		178,903		
28			Corporation tax		(33,992)		
29			Profit after corporation tax		144,911		
30			<small>Dividend allowance remaining</small>			2,000	2,000
31			<small>Amount before higher rates apply</small>			27,600	41,268
32			<small>Amount before Net Adj. Income restriction</small>			77,600	91,268
33			Dividends		Nil	Nil	Nil
34							
35			Change in salaries for what if analysis			1,000	1,000
36			<small>Each Director-shareholder has own sheet 'DS1 what if' 'DS2 what if' etc</small>				
37			Change in dividends for what if analysis			1,000	1,000
38							

REMAINING DIVIDEND ALLOWANCE, AND OTHER RELEVANT INFORMATION SHOWN IN BLUE. ENTERING DIVIDEND WILL ADJUST THIS INFORMATION.

Dividends entered

A	B	C	D	E	F	G
1	Enter number of director-shareholders			2		
4				2019/20	DS_1	DS_2
24	Interest to director-shareholders			Nil	Nil	Nil
25	<small>Consider employer pension contributions. If adjusted income plus pension contributions are above £150,000, tax efficient contributions are severely restricted</small>					
26	Employer pension contributions			Nil	Nil	Nil
27	Profit before corporation tax			178,903		
28	Corporation tax			(33,992)		
29	Profit after corporation tax			144,911		
30	Dividend allowance remaining				Nil	Nil
31	Amount before higher rates apply				Nil	6,268
32	Amount before Net Adj. Income restriction				2,000	56,268
33	Dividends			(110,600)	75,600	35,000
34						
35	Change in salaries for what if analysis				1,000	1,000
36	<small>Each Director-shareholder has own sheet 'DS1 what if' 'DS2 what if' etc</small>					
37	Change in dividends for what if analysis				1,000	1,000
38						
39						

DIVIDENDS ENTERED

A SUMMARY OF THE TAX EFFECT ON THE COMPANY AND THE DIRECTOR-SHAREHOLDERS IS SHOWN ON 'SUMMARY' SHEET

EACH DIRECTOR-SHAREHOLDER HAS OWN 'WHAT IF' ANALYSIS SHEET

Extract from summary page

The summary page is not protected and so can be adapted if desired for showing to clients

Summary of profit allocation		2019/20	DS_1	DS_2
		£	£	£
5	Company profits	200,000		
6	Salaries/bonuses	(20,632)	12,000	8,632
7	Employer NI (less Employment Allowance if available)	(465)	465	Nil
8	Employer pension contributions	Nil	Nil	Nil
9	Interest to director-shareholders	Nil	Nil	Nil
10	Profit before corporation tax	178,903		
11	Corporation Tax	(33,992)		
12	Profit after corporation tax	144,911		
13	Dividends	(110,600)	75,600	35,000
14	Retained profit	34,311		
16	Receivable by director-shareholder before tax		87,600	43,632
17	Addition to pension		Nil	Nil
18			87,600	43,632
20	Taxes payable by director-shareholder on amounts receivable			
21	Income tax on salary/bonus		Nil	Nil
22	National insurance Contributions		404	Nil
23	Income tax on interest		Nil	Nil

SHOWS EFFECTS ON THE COMPANY AND THE EFFECTS ON EACH DIRECTOR-SHAREHOLDER

Extract from 'what if' page – first part

Salary 'what if'	£	£	£	£	£
Salary change	Nil	1,000	2,000	3,000	4,000
What if salary	12,000	13,000	14,000	15,000	16,000
Cost to company of salary	10,097	11,018	11,940	12,862	13,784
Increase in cost to company		921	1,843	2,765	3,687
Increase in net receipt by director taking account of change to taxes on other income		430	860	1,064	1,270
%age benefit to director compared to cost to company		46.7%	46.7%	38.5%	34.4%
Marginal rate of taxes borne by director on change in salary consisting of:		57.0%	57.0%	64.5%	68.3%
increase in tax and NI on salary		220	540	960	1,380
increase in tax on other income		350	600	976	1,350
Amount of dividend that could be paid at same cost to company		921	1,843	2,765	3,687
Increase in net receipt by director as shareholder		622	1,244	1,695	2,109
%age benefit to shareholder compared to cost to company		67.5%	67.5%	61.3%	57.2%
Marginal rate of tax borne by director if dividend increased		32.5%	32.5%	38.7%	42.8%

SHOWS FOR DS1 MARGINAL RATES OF TAX IF SALARY INCREASED AND INCREASE IN NET RECEIPT FOR DIRECTOR-SHAREHOLDER IF DIVIDEND PAID INSTEAD (AT NO EXTRA COST TO THE COMPANY)

Extract from 'what if' page – second part

Dividend 'what if'					
The effect of dividend increasing but no increase in salary	£	£	£	£	£
Dividend change	Nil	1,000	2,000	3,000	4,000
What if dividend	75,600	76,600	77,600	78,600	79,600
Increase in cost to company		1,000	2,000	3,000	4,000
Increase in net receipt by director as shareholder		675	1,350	1,799	2,250
%age benefit to shareholder compared to cost to company		67.5%	67.5%	60.0%	56.3%
Marginal rate of tax borne by director on dividend increase		32.5%	32.5%	40.0%	43.8%

SHOWS FOR DS1 MARGINAL RATES OF TAX IF DIVIDEND INCREASED

JUMP IN MARGINAL RATE OF TAX AT £3K AND £4k DUE TO LOSS OF PA AS NET ADJUSTED INCOME WILL EXCEED £100K

Full workings can be viewed if desired

DS_1															
Income from all sources															
Allocation of SPA and SRB															
Allocation of bands															
	SPA avail	SPA	Inc after SPA	SRB avail	SRB	Inc after SRB	BRB avail	BR band	SA and DA	Inc after BRB	HRB avail	HR band	SA and DA	Inc after HRB	
Salaries/bonuses	12,000	12,500	12,000	Nil		Nil	37,500	Nil		Nil	112,500	Nil		Nil	
Other income except int and divs	10,000	500	500	9,500		9,500	37,500	9,500		Nil	112,500	Nil		Nil	
Int. Other interest	400	Nil	Nil	400	Nil	400	28,000	400	400	Nil	112,500	Nil	Nil	Nil	
Int. From company	Nil	Nil	Nil	Nil	Nil	Nil	27,600	Nil	Nil	Nil	112,500	Nil	Nil	Nil	
Div Other dividends	Nil	Nil	Nil	Nil		Nil	27,600	Nil	Nil	Nil	112,500	Nil	Nil	Nil	
Div From company	75,600	Nil	Nil	75,600		75,600	27,600	27,600	2,000	48,000	112,500	48,000	Nil	Nil	
Total taxes															
Total Income	98,000														
Personal allowance	12,500		12,500												
Savings allowance	500								400						
SRB available															
Total taxable inc exc Int and Divs	9,500														
Full SRB	5,000														
Available	Nil		Nil		Nil										
Total SRB and SA available			100												
Dividend Allowance	2,000		Nil												
Allocation of allowances if other income less than Personal Allowance															
Amount other income less than PA	Nil														
Amount interest exceeds SRB + SA	Nil														
Allocation to savings income	Nil														

Example of output of Summary page

Summary of profit allocation

	2019/20	DS_1	DS_2
	£	£	£
Company profits	200,000		
Salaries/bonuses	(20,632)	12,000	8,632
Employer NI (less Employment Allowance if available)	(465)	465	Nil
Employer pension contributions	Nil	Nil	Nil
Interest to director-shareholders	Nil	Nil	Nil
Profit before corporation tax	178,903		
Corporation Tax	(33,992)		
Profit after corporation tax	144,911		
Dividends	(110,600)	75,600	35,000
Retained profit	34,311		
Receivable by director-shareholder before tax		87,600	43,632
Addition to pension		Nil	Nil
		87,600	43,632
Taxes payable by director-shareholder on amounts receivable			
Income tax on salary/bonus		Nil	Nil
National insurance Contributions		404	Nil
Income tax on interest		Nil	Nil
Income tax on dividends		17,520	2,185
		17,924	2,185
Total net benefits to director-shareholder		69,676	41,447
Net costs to the company of salaries, interest and dividends			
<i>Salaries/bonuses inc. employer NI</i>		12,465	8,632
Less CT relief		(2,368)	(1,640)
Net cost of salaries/bonuses		10,097	6,992
<i>Pension contributions</i>		Nil	Nil
Less CT relief		Nil	Nil
Net cost of pension contributions		Nil	Nil
<i>Interest to Director-shareholders</i>		Nil	Nil
Less CT relief		Nil	Nil
Net cost of interest		Nil	Nil
<i>Dividends</i>		75,600	35,000
Total net costs to the company		85,697	41,992
The above assumes other income of:			
Interest		400	100
Dividends		Nil	Nil
Other income		10,000	Nil
Taxes payable on other income		1,900	Nil