Avoiding the tax issues of transferring assets from limited companies to contractors

Contractors could face an unwelcome income tax charge and additional employer's National Insurance Contributions (NICs) if they fail to use the correct procedure when transferring a company asset into personal ownership. They are likely to want to do so when **closing their limited company** or **acquiring some company equipment for personal use**.

"Contractors should pay market value for any company asset, such as a computer or car, that becomes a personal asset," explains **James Abbott**, owner and head of tax at contractor accountant **Abbott Moore**. "If a contractor fails to pay market value, the difference appears on their P11D and a tax charge will arise."

But determining the market value of the typical assets contractors are likely to acquire from their contracting business, and ensuring payment via a **director's loan account** or additional **dividend** is straightforward, says Abbott, so contractors should easily be able to avoid any negative tax issues.

How is market valuation (MV) calculated?

"Calculating the market value of an asset can be completed on any reasonable basis, as long as it can be justified to HMRC," continues Abbott. There are typically three methods contractors use:

Established guides, such as **Glass's Guide**, or **Parkers** for cars

Tables published by HMRC, such as its **cycle valuation table**

Other sources of second-hand pricing information, such as eBay.

In some cases, particularly for IT equipment, the market valuation is likely to be considerably below what the company originally paid for the asset. If this fall in value is genuine, what the contractor will pay personally for a piece of equipment could represent good value.

However, Abbott warns contractors that deliberately understating the value of an asset will attract unwelcome attention from HMRC: "There used to be a myth that company directors would take their cars with them for a pound on leaving the business, but this is not the case. Any perceived underpayment, particularly if HMRC publishes valuation tables, will result in a benefit in kind being added to a contractor's P11D."

The consequences of not paying market value for an asset

Under- and non-payment will always result in a tax charge to both the contractor and the limited company. If, for example, a contractor simply decides not to pay for a laptop computer originally bought by the business when giving it to a member of their family, then the market value of that asset will be added to the contractor's P11D as a benefit in kind.

"Benefit in kind charges are generally to be avoided, because the contractor pays income tax at their highest rate" says Abbott. "This is compounded by employer's NICs, which will be 13.8% of the benefit in kind amount."

Abbott highlights that all these extra charges can be avoided by simply declaring an additional dividend for the value of the asset and giving the dividend back to the company, so no cash changes hands but the transaction is recorded in the accounting records. Alternatively a contractor can adjust their director's loan account.

"Whether incurring a benefit in kind results in less tax than paying an additional dividend is something each contractor will need to decide based on their own circumstances," he adds.

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>
> James Abbott, Abbott Moore LLP

VAT treatment of assets transferred to contractors

VAT is always considered to be included in the market value price that the contractor pays. Abbott explains: "If the contractor is buying a second-hand laptop from their limited company for the determined market rate of £200, it is automatically assumed that the price includes VAT."

This is important because the contractor's limited company must then account for the asset sale in its VAT return. The £200 is considered to be VAT inclusive, which using rates at the time of writing works out at £33.33 VAT (£200 divided by 120 multiplied by 100).

James Abbott

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James Abbott is the owner of Abbott Moore LLP and often speaks on freelancer / contractor tax matters. He has his own growing portfolio of contractor clients.

Abbott Moore LLP are PCG Accredited Accountants and specialise in providing tax advice to freelancers as well as dealing with their year end accounts and tax returns. **Read Full Profile...**

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“Unless the company is using the **flat rate VAT scheme** (FRS) and didn’t claim the VAT back on the original purchase, the full amount of VAT must be declared to HMRC,” says Abbott. Special rules apply to buying and selling assets under the flat rate scheme.

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