

You should assume that today's date is 1 March 2021.

Sarah is currently self-employed. If she continues to trade on a self-employed basis, her total income tax liability and national insurance contributions (NIC) for the tax year 2021-22 will be £12,631.

However, Sarah is considering incorporating her business on 6 April 2021.

The forecast taxable total profits of the new limited company for the year ended 5 April 2022 will be £50,000 (before taking account of any director's remuneration).

Sarah will pay herself gross director's remuneration of £30,000 and dividends of £10,000. The balance of profits will remain undrawn within the new company.

(a) Determine whether or not there will be an overall saving of tax and national insurance contributions (NIC) for the year ended 5 April 2022 if Sarah incorporates her business on 6 April 2021.

Notes:

1. You are expected to calculate the income tax payable by Sarah, the class 1 NIC payable by Sarah and the new limited company, and the corporation tax liability of the new limited company for the year ended 5 April 2022.
 2. The new limited company will not be entitled to the NIC annual employment allowance.
 3. You should assume that the rates of corporation tax remain unchanged.
- (8 marks)

(b) Advise Sarah as to why her proposed basis of extracting profits from the new limited company is not optimum for tax purposes, and suggest how the mix of director's remuneration and dividends could therefore be improved.

Note: You are not expected to calculate any revised tax or NIC figures. (2 marks)
(10 marks)