

You should assume that today's date is 15 March 2016.

You are a trainee chartered certified accountant dealing with the tax affairs of Gamila, who is the managing director of, and (currently) 100% shareholder in, Alimag Ltd.

For the year ended 5 April 2017, Alimag Ltd's taxable total profits, before taking account of director's remuneration, are forecast to be £180,000.

Original basis of profit extraction

Gamila originally intended to withdraw £125,000 of the profits as director's remuneration, and you have calculated that this approach would result in the following tax liabilities and national insurance contributions (NICs):

	£
Alimag Ltd	
Corporation tax for the year ended 5 April 2017	7,774
Class 1 employer NICs for the tax year 2016–17	16,131
Gamila	
Income tax for the tax year 2016–17	43,600
Class 1 employee NICs for the tax year 2016–17	5,833
	73,338

Revised basis of profit extraction

After a meeting with Gamila, a more beneficial approach to withdrawing £125,000 of profits from Alimag Ltd has been agreed for the tax year 2016–17:

- (1) Gamila will withdraw gross director's remuneration of £25,000.
- (2) Gamila's husband, Magnus, will become a 25% shareholder in Alimag Ltd.
- (3) Alimag Ltd will then pay dividends of £75,000 to Gamila and £25,000 to Magnus.

Neither Gamila nor Magnus will have any other income for the tax year 2016–17.

Required:

Calculate the overall saving of taxes and NICs for the tax year 2016–17 if the revised basis of profit extraction is used instead of the original basis of profit extraction.

Notes:

(1) You are expected to calculate the income tax payable by Gamila and Magnus, the class 1 NIC payable (if any) by Gamila, Magnus and Alimag Ltd, and the corporation tax liability of Alimag Ltd for the year ended 5 April 2017.

(2) Alimag Ltd is not entitled to the NIC annual employment allowance.

(3) You should assume that the rate of corporation tax remains unchanged.