

# Case study

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## Spectrecom Films review remuneration strategy to save tax

- Film and web video production company operating from studio's in London
- Significant development in recent years in premises and technology
- Due to expansion and investment cash flow is a major factor
- Rapidly growing business with three principal owner managers
- Review of remuneration strategy, based on desired salary levels
- Shareholdings not equal, which meant straight swap of dividends for salary not possible
- Review identified potential saving to the company of £18,000 by switching to a more dividend based package
- Final strategy, split savings between company and owners so that company was able to save in the region of £9,000 and the individuals all benefitted from additional income

Spectrecom films have been able to save tax whilst also increasing income of the principal shareholders and directors following a review of remuneration strategy provided by Menzies.

### The Issue

The company provides film and web video production from studio's located near Waterloo in London. Following a move into new studio's during 2009, and a subsequent investment in facilities, the company has seen a significant increase in revenue. However the investment in the company's long term future and working capital requirements associated with expansion does mean that cash flow is a critical factor for the company.

### The Solution

During a meeting in March 2011, restructuring director's remuneration packages was discussed and it was agreed that this is an area that would be reviewed by Menzies.

The review was undertaken based on proposed salary levels for the next year, and the constraint that shareholdings were not directly proportional to proposed salary levels. It was therefore not possible to simply exchange salary pound for pound with dividend income.

The review started by identifying the net income each director would receive assuming salaries was paid. This net income figure was set as the target income and the review identified the saving to the company if a mix of dividends and salary were applied to achieve the same target income.

### The Benefit

The initial review identified a potential saving of £18,000 for the company, assuming that each individual's net income was maintained. The work was then extended and a final position identified whereby the company would still be saving approximately £9,000, whilst the income of the individual directors would also increase between £2,500 and £3,000.

Sara Aynesworth, the company's finance director confirmed that they were delighted with the outcome. "From a personal perspective, I am obviously pleased that my disposable income will be slightly higher

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than originally anticipated, but also from a company perspective the potential cash flow saving of £9,000 per annum will help immensely as we continue to strive to develop our range of services and income levels". The suggested policy has been implemented by the company from the start of the 2011/12 tax year.

Any company where the owners are also key employees could potentially benefit from restructuring their approach to remunerating these key employees. Implementing such an approach should only be undertaken after careful consideration of a number of other factors. However for some companies there is a real tax saving potential which will bring with it, significant cash flow advantages.

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