Starting a business?

A brief guide to help you get under way

INTRODUCTION

Congratulations! Taking the step and working for yourself can be daunting and filled with more questions than answers.

Whilst this guide can't answer them all – I do hope you will find it useful and prompt you to ask questions that perhaps you hadn't thought of. It has been created to assist you and highlight common problem areas. Remember there is no such thing as a stupid question, and you don't know what you don't know.

There are many commercial and legal aspects of running a business that you as a business owner need to keep in mind. Without being overly dramatic the country has run out of money, and the treasury have tasked HMRC to maximise revenues from both penalties and tax. At the same time tax legislation is becoming more and more complex and the rules are constantly changing.

This is why we strongly recommend that you carry out a holistic review of your tax position at least once a year.

Remember, we are here to help you build a brilliant business.

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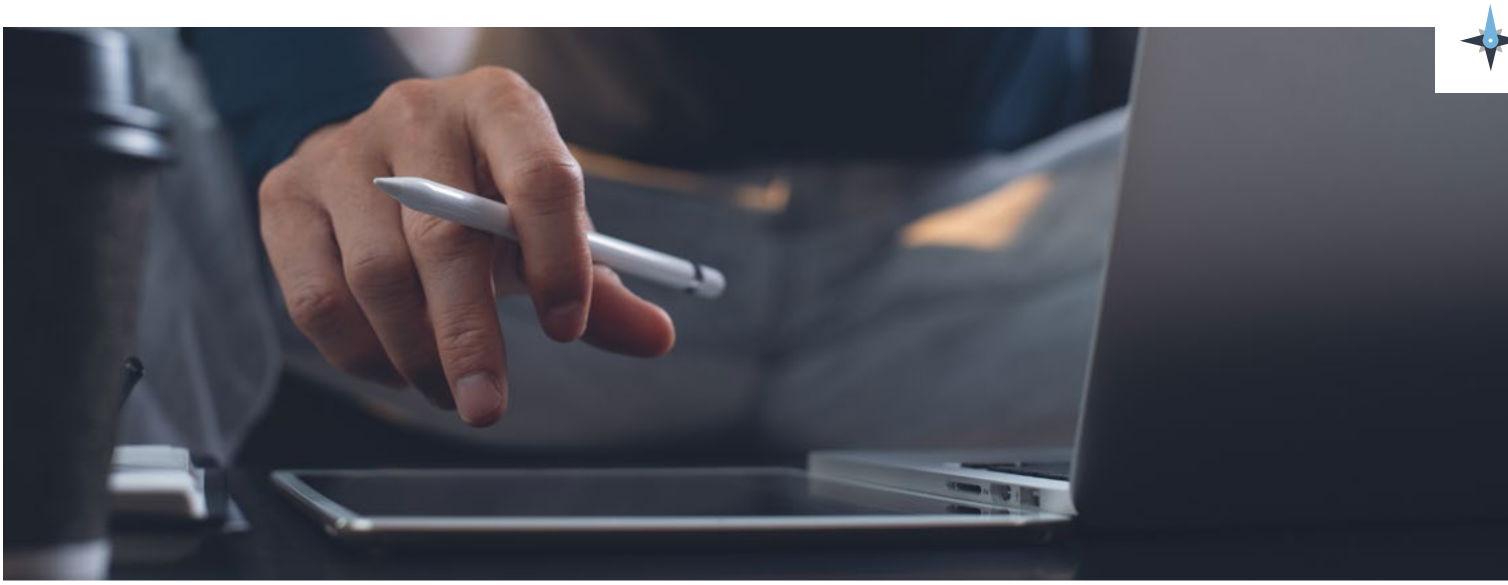

The importance of choosing and reviewing your business structure

Each business type (typically sole trader, partnership or company, but there are others) have different tax and accounting rules

It's therefore vital that you receive advice tailored specifically for you and your business. There is no one size fits all – and there is often no perfect solution. Reviewing the structure of your business is imperative as it grows and evolves. Especially if you end up running several businesses and possibly even purchase 1 or 2 along the way.

We are here to help you choose the right business structure that isn't just based around tax. We can help you consider risk, liability, employees, partners, growth and of course prepare the business for sale if you decide to move on to pastures new.

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How are profits taxed?

Whilst your business profit can be receipts minus payments, it is actually income earned less expenses that are incurred. This means that you are liable to pay tax on income before cash is received.

One of the most common questions we get asked is what can I put against my tax / how can I reduce my tax bill? A very good question and the general rule is that anything that is purchased “wholly, exclusively and for the purpose of the trade” can be set against profits. However as you can imagine there are exceptions particulary buildings, cars and plant and machinery. This is where professional advice needs to be sought and accurate records kept. In this way, the maximum relief can be claimed.

Sole traders / Partnerships V Companies

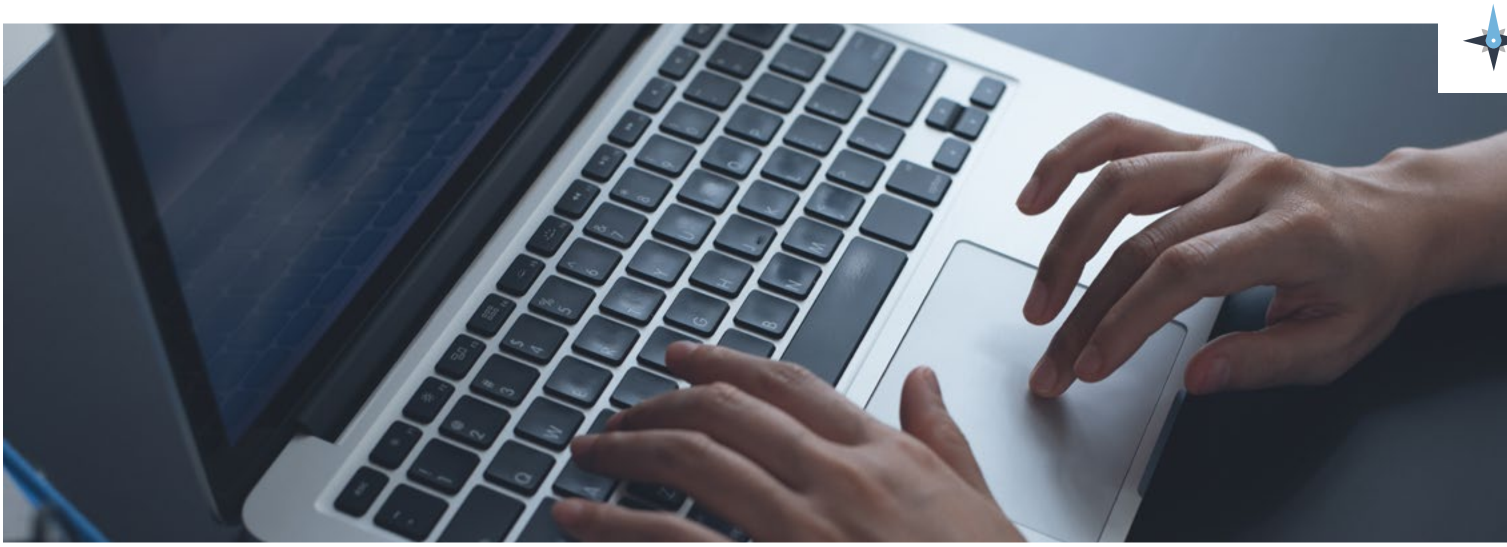
Sole traders and partnerships pay tax only on profits and personal drawings are ignored. Companies pay tax first on profits and the shareholders then pay tax on their dividends. Whilst successive governments have (sadly) reduced the advantages of trading via a limited company there are still many advantages.

Top Tip

Directors and shareholders are usually the same in most small companies and this means they can choose the most tax efficient way to pay themselves. Tax and NIC savings can be made by using dividends. However, this will require some tax planning with dividend allowance, dividend tax rates and other personal income all needing to be taken into account.

However dividends can only legally be taken from profits – if there are insufficient profits (but there is cash in the bank) yet money is still taken by directors / shareholders then the money must either be paid back or tax of 32.5% needs to be paid.

This is a particularly complex area, and if you have any doubts at all then please get in touch.



Cash basis for sole traders and partnerships

Smaller sole traders and partnerships can if they wish use the cash basis. In this instance it really is money in – minus money out and pay tax on the difference. There are as you might imagine a number of adjustments that need to be considered.

However this scheme is only available if business receipts are less than £150,000. Businesses can continue to be in the scheme up to a total business turnover or £300,000 per year. It is not available to companies.

Corporation Tax

Currently the main rate of Corporation Tax payable on company profits is 19%, although from March 2023 it is increasing to 25%. The particular rate your company pays will depend on the level of profits.

The current year's tax liability may be reduced if expenditure is incurred before the company's accounting year end. If expenditure is planned for early on in the next accounting year, then bringing this forward by a few weeks can advance the related tax relief by a full 12 months.

The following are examples of the type of expenditure that you should consider bringing forward:

- Repairs to buildings and re-decorating costs.
- Marketing and advertising campaigns.
- Redundancy costs
- Expenditure on plant and machinery – subject to capital allowances.

Top Tip

To get tax relief as early as possible try to incur expenditure just before rather than just after your year end.

Capital Allowances

Tax relief in the form of capital allowances are available when assets are purchased for the business, e.g. machinery, vehicles, office equipment. These are deducted from income to calculate taxable profit. There are special rules for cars – so do take care and check with us first.

Value Added Tax (VAT)

VAT is (in theory at least) an indirect tax – it is up to you if you purchase luxury goods or not.

The fact that many of the luxuries are essentials seems to have been lost along the way. The final customer ultimately pays VAT as a tax, with businesses acting as collectors of this tax. As you can imagine there are large fines payable if the system is not operated correctly.

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Thinking of employing someone?

You will of course have many responsibilities as an employer. These include complex areas of employment law.

Fortunately we have teamed up with an excellent HR adviser who helps us and our clients from time to time. There are also work place pensions (auto enrolment) which have to be considered.

We will look at both of these in more detail.

Real Time Information (RTI)

RTI is mandatory for most employers and they are required to make regular payroll submissions throughout the year each time an employee is paid.

These submissions show all payments made to (salary, overtime, bonuses etc) and deductions (Tax NI, attachment of earnings etc) taken from employees and should be made on or before the date the employee is paid.

PAYE and NIC's on salaries are paid monthly, unless the amount due is less than £1,500 per month in which case it can be paid quarterly.

As you can imagine failing to file or pay on time will lead to interest and can lead to penalties.

Work Place Pensions / Auto Enrolment

Employers are obliged under AE to automatically enrol employees into a work-based pension scheme.

This will require the the employer to:

- Assess the different types of workers in the business.
- Provide a qualifying automatic enrolment pension scheme.
- Ensure all "eligible jobholders" are automatically enrolled into the scheme.
- Pay all employer contributions required.

In general, employers need to contribute at least 3% and employees need to contribute at least 5%. This will then meet the overall minimum contribution rate of 8%.

AE is complicated and if you are in any doubts at all then please get in touch.

Conclusion

We have designed this guide to give you a basic understanding of some of the key areas that need to be considered when you start out.

Of course there are many others that we haven't even mentioned e.g. marketing, raising finance, business plans, processes, pricing etc etc

Checklist of areas you should consider are:

- Company structure
- Profits
- Corporation Tax
- Capital allowances
- VAT
- Employer obligations

How we can help you have a brilliant business

We'll make sure that your company is paying the right amount of tax whilst also ensuring that you are aware of all tax relief opportunities that are available to you.

By engaging with us you can ensure your business tax planning is complete and up-to-date.

Our straightforward approach to dealing with your tax affairs will mean you will have more time to spend on your business.

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