Teachers Financial Planning

Tax and your business

This guide takes a look at the various tax implications faced throughout the life of a business

From the way you decide to structure your business to claiming valuable reliefs and allowances, tax plays a prominent role in running a business. The more you understand it, the higher the chances that you will be able to make tax rules work for you, as opposed to against you.

Starting up

One of the most important decisions you will make when it comes to starting a new business is the structure it should take. There are pros and cons associated with each type of structure.

The types of structure include:

Sole trader

Sole traders are people who work for themselves. Even if you haven't registered with HMRC but have started working on a freelance, self-employed basis you will be classed as a sole trader.

You may employ staff but you are personally responsible for any losses your business makes.

As a sole trader, your tax responsibilities are:

- complete a self-assessment tax return and pay any income tax or national insurance owed by 31 January
- register for VAT if your taxable turnover exceeds £81,000 in a 12 month period.

'Ordinary' business partnership

You and your business partner share responsibility for the business. You can share profits and each partner is expected to pay tax on their share of the profits.

Therefore, you are also personally responsible for your share of any losses the business makes.

As far as tax responsibilities go:

- One nominated partner must send a partnership self-assessment tax return each year
- All partners must complete a personal self-assessment tax return and pay any income tax and national insurance owed by 31 January
- If the partnership expects to have a taxable turnover of more than £81,000 in a 12 month period it will need to register for VAT.

Limited liability partnership (LLP)

Like an ordinary partnership but the partners are not personally liable for any debts that the business cannot pay – their liability is limited to the amount of money they invest in the business.

Limited company

This is a legal entity that you can set up to run your business. The company is responsible for any losses or debts, not you personally. Similarly, any profit is owned by the company but can be shared with shareholders and directors.

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The tax responsibilities of a limited company include:

- completing statutory accounts
- filing an annual return with Companies House
- sending a company tax return to HMRC
- registering for VAT if taxable turnover is expected to exceed £81,000.

In addition, directors of limited companies are expected to file a self-assessment tax return and also pay tax and national insurance through the PAYE system if they take a salary from the company.

Choosing the right accounting date for your business

As a business you are able to choose an accounting date that suits you. The date you choose will affect when you pay tax on your profits.

For this reason, aligning your accounting year with the tax year is generally the simplest option but there are other factors to consider.

These include:

- The earlier in the tax year your accounting period sits, the longer you will have to pay tax on your profits. This means that as your profits rise, your tax bill will rise more slowly and - if your profits fall - it will take longer for any reduction to be reflected in your tax bill.
- While there is a cashflow advantage to an earlier date, remember that this will result in higher liability if the business ceases.
- Unless your accounting date is 31 March or 5 April, some of your profits will have been taxed twice during the life of the business. For this reason, ‘overlap relief’ gives relief on these profits if and when the business stops trading or you change your accounting date.

You can change your accounting date if you feel it is not working for you. You can shorten your financial year as many times as you like but it can only be lengthened – to a maximum period of 18 months – once every 5 years.

Corporation tax

Businesses pay corporation tax on their taxable profits. The business owner is responsible for calculating how much it owes, submitting the company tax return and paying any tax due by the required deadline.

You may be able to claim relief from corporation tax if your company or organisation makes a loss from trading, the sale or disposal of a capital asset, or on property income.

The rate of corporation tax payable depends on the size of your business’s profits.

Capital allowances

You can reduce taxable profits by making pension contributions or bringing qualifying capital expenditure forward to take advantage of the 100% Annual Investment Allowance, which is set to reduce considerably in January 2016.

Capital allowances give tax relief for the reduction in value of qualifying assets that you buy and own for business use, by writing the cost off against the taxable income of your business.

Research and development (R&D)

Limited companies can qualify for tax relief on qualifying expenditure on R&D. Your business can only claim R&D relief if it’s liable for corporation tax.

The tax relief on allowable R&D costs for **small and medium sized businesses** is 225%. For each £100 of qualifying costs, your company could have the income on which corporation tax is paid reduced by an additional £125 on top of the £100 spent.

You can only claim under the scheme for SMEs if your company or organisation meets the definition of a SME for R&D relief purposes.

If your company isn’t small or medium-sized, you may be able to claim under the **Large Company Scheme**.

We can help

As you can see, tax plays an important role in the life cycle of any business. Speak to your financial adviser today to find out how they could help to ensure your tax affairs are in order and working for your business.