HAYWARD WRIGHT
CHARTERED ACCOUNTANTS, REGISTERED AUDITORS & BUSINESS ADVISORS

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TOP TIPS ON TAX

Tax can be a headache for businesses, particularly if they don't realise which taxes they might have to pay. However, tax is not as complicated as you might think. A basic understanding can help you recognise which taxes apply to your business, what can be claimed as a business expense, how you can offset your losses and what records you must keep.

It's important to recognise that your employment status has a significant effect on how you're taxed. Depending on the way your business is organised, you may be considered self-employed or an employee. If you're an employee, you pay tax under PAYE. If you're self-employed, you're responsible yourself for working out and paying the tax you owe.

Generally you'll be self-employed if you:

- risk your own money in the business;
- provide the main equipment for the business; and
- work for a number of different people.

You can find out more about the difference between employment and self-employment on the HM Revenue and Customs (HMRC) website at http://www.hmrc.gov.uk/employment-status/index.htm. If you're still not sure whether you're employed or self-employed, you can use HMRC's employment status indicator at http://www.hmrc.gov.uk/calcs/esi.htm.

1. Be aware of what taxes affect your business. There are a number of taxes that may affect your business, for example:
    - limited companies pay corporation tax and employer's national insurance (NI) contributions - and the directors pay income tax and employee's NI contributions;
    - self-employed sole traders and partners pay income tax, together with Class 2 and Class 4 NI contributions;
    - all employers and employees have to pay income tax and NI contributions;
    - individuals and companies may have to pay capital gains tax if they sell an asset for more than they paid for it;
    - VAT is a tax on sales of goods and services; and
    - stamp duty land tax may be payable on certain commercial property transactions

2. Understand tax on business vehicles. All company cars are subject to vehicle excise duty. The rate varies depending on whether the vehicle is a car, van or heavy goods vehicle. For the self-employed, some of the costs of using the vehicle can be claimed as expenses - including part of the value of the car each year if it is owned. If a car is made available by an employer to an employee for private as well as business use, the employee will be taxed on the benefit.

3. Offset your losses. A limited company can offset its trading losses against other income from the same accounting period. It can also offset them against profits of the previous accounting period or carry them forward to the next. Self-employed people can also carry back losses for one year and set them against profits of the last tax year.

    As well as the normal right to claim to carry back losses for one year, where a self-employed person makes a loss in a trade in the first taxyear in which they carry on the trade, or in any of the three following tax years, they can claim to set off the loss as far as possible against:

    - their total income for the tax year ending three years before the end of the year of the loss; and

- any balance can then be set against their total income of the next two succeeding years, setting it against the earlier year in priority to the later.

4. Understand how business expense claims work. To work out your taxable profits, you need to know what business expenses you can set against your business income. Business expenses that aren't capital expenditure are allowed but private expenses are not. It's also important that you calculate your 'profits' rather than just the amount of money you have coming in. When calculating your profits, remember to value your stock at its cost rather than its selling price. Otherwise, you'll inflate your profits - and your tax bill.

5. Always send in your returns and pay your tax on time. New companies must tell HMRC that they are chargeable to tax for an accounting period within 12 months of the end of that accounting period. An accounting period doesn't have to be the same as the tax year but it can't be longer than 12 months. You're responsible for working out and paying any corporation tax due for the accounting period within nine months and one day after then end of the accounting period. If you don't keep adequate records, send in your company tax return or pay the corporation tax due on time you may have to pay a penalty. Sole traders and partnerships must notify HMRC of their liability to tax by 31 January following the end of the year of assessment when they become liable.

6. Accurately calculate PAYE tax and NI deductions. You must complete a form P11 (using either an electronic or a paper record) every pay day to record PAYE income tax and NI deductions. If you don't want to use either commercial or HMRC's free PAYE software, HMRC provides a starter pack, which demonstrates how to fill in form P11 and provides tables to work out how much tax and NI contributions are due.

7. Provide a statement of employees' tax and NI contributions. You must give each of your employees an itemised payslip or statement when you pay them, including details of:
   - gross pay;
   - deductions that vary from one payday to the next;
   - deductions that are consistent each payday; and
   - net wages after tax.

8. Deal with your in-year PAYE returns. You'll need to complete certain tax forms if an employee leaves or dies. You'll have to complete a form P45 in both cases. If the employee leaves, the P45 must show details of their gross pay, tax code and tax and NI deductions for their final year of employment. You must send Part 1 of form P45 to HMRC and give Parts 1A, 2 and 3 to the employee. If an employee dies, you must send the whole completed P45 to your tax office.

9. If a new employee doesn't give you a form P45 when you take them on you must complete a P46 and operate the emergency tax code appropriate to their circumstances. As soon as their pay reaches the PAYE Lower Earnings Limit (LEL) you should send the P46 to HMRC online. All in-year returns must be sent to HMRC online.

10. Pay less tax. You may be able to reduce your overall profits at the end of the year so that you pay less tax. You can reduce your profits by requesting reliable customers to delay transactions until the following year or by writing off bad debts. But to minimise risk, you should consider delaying transactions only if your cash flow is steady.

11. Keep up to date VAT records. From the moment your business is registered for VAT, you must keep meticulous VAT records. Your invoices and receipts must include how much VAT has been charged and your VAT number. You must fill in a VAT return form and state how much you have collected and paid during the

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accounting year. If you don't send in your VAT returns or pay the VAT due on time, you may have to pay a penalty VAT returns must be filed online and payments made electronically.