



Questions about business taxation

PREPARE FOR BUSINESS, PREPARE FOR SUCCESS

1. Questions about business taxation

IS TIMING IMPORTANT WHEN SETTING UP A BUSINESS?

If you intend to start on your own or in partnership and not through a limited company, then definitely yes. The dates chosen for starting or ending a business and for its accounting year end can make a big difference to your tax position and cash flow. The timing of important transactions or purchases of capital equipment can also have a significant effect. It often pays to take expert advice before committing yourself to a decision on timing, as you may be able either to save tax or delay the payment of tax.

WHAT IS TAX DEDUCTIBLE?

Most of the expenses of running a business are tax deductible but there are exceptions. The capital cost of most business assets is allowable, although the deductions are usually spread over a period of years. You need to ensure that all legally available tax allowances have been claimed and also try to achieve maximum benefit by careful timing of your capital allowance claims.

SHOULD I PURCHASE OR LEASE?

That depends on your taxation and financial position. But you are absolutely right to consider such implications when investing in equipment, buying a car, or undertaking any other major expenditure. The tax treatment will vary. Some forms of finance have an immediate cash flow effect, whereas others result in a tax benefit in 12-18 months' time.

WHAT SHOULD I DO BEFORE DOING BUSINESS ABROAD?

Trading or setting up overseas can bring complex tax problems. You will encounter a different tax regime, both on direct and indirect taxes. There may also be complications with transactions between

the UK and the overseas country. To assess the tax advantages and disadvantages of overseas operations you should seek expert advice.

SHOULD I DO THE BUSINESS'S TAX RETURN?

Completing tax returns can be complicated and time consuming and mistakes may give rise to an enquiry from HMRC, and ultimately a penalty. Unless your business is very small it is advisable to use the services of an expert who is experienced in dealing with a wide range of tax returns.

WHICH ITEMS ARE VATABLE?

Some businesses have trouble sorting out which transactions are VATable and those that are exempt or zero-rated. There may even be problems of definition that have to be negotiated with the VAT inspector. HMRC publishes public notices to help with VAT queries.

DO I NEED TO REGISTER FOR VAT?

Your business must be registered for VAT if your turnover for the previous 12 months exceeds the threshold (revised every tax year). Once you register you will be given a VAT registration number and notified of the registration date from which you should charge VAT on your supplies.

If your business has a turnover below the registration threshold, you can voluntarily register for VAT. This would be appropriate if your business makes purchases from suppliers and receives invoices which include VAT. If your business is not VAT registered, the VAT on these suppliers' invoices becomes an unrecoverable cost. Voluntary registration means that it is important to consider whether your customers are VAT registered and can recover this cost themselves.

2. Questions about personal taxation

DO I HAVE TO DO MY OWN SELF ASSESSMENT?

You will be required to complete a self assessment tax return. If you are computer literate and your tax affairs are relatively straightforward, you can complete and submit the relevant documents either online or in hard copy. HMRC publishes a range of information on self assessment.

HOW DO I RECLAIM TAX?

If you have paid too much tax in the past, it may be reclaimed in certain circumstances. Examples of causes of overpayments include incorrect PAYE coding, the omission of allowable expenses from a tax return, or refunds because of the higher personal allowance available to pensioners.

IS IT POSSIBLE TO REDUCE MY INCOME TAX?

There are a large number of legitimate ways by which you can reduce your income tax liability, including ensuring that you are claiming all allowable expenses.

For example, you could consider choosing different forms of borrowing or investment to improve your tax position, take advantage of the tax relief available on personal pension plans, change the timing of visits abroad, or even move abroad to achieve non-resident status.

HOW DO I FIND OUT MORE ABOUT REDUCING INHERITANCE TAX?

Most transfers of assets are now free from inheritance tax provided the donor survives for seven years after the transfer. However, this tax is complex and needs careful planning. Steps to reduce inheritance tax can result in increased potential liabilities to other taxes, such as capital gains tax.

SHOULD I BE WORRIED ABOUT CAPITAL GAINS TAX (CGT)?

If a profit results from selling an asset that is not part of the trading stock of your business, you may be liable for capital gains tax (CGT). Also, if your business is run from home, the exemption from CGT that private houses normally enjoy could be prejudiced if you seek income tax relief on part of the property's running costs. Planning in advance can help minimise a capital gains tax liability.

USEFUL WEBSITES

HMRC
[hmrc.gov.uk](https://www.hmrc.gov.uk)

GOV.UK
[gov.uk/browse/tax](https://www.gov.uk/browse/tax)



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