

Small business taxes guide



Whether you're new to the world of working for yourself, or you just want a tax refresher, you'll find everything you need to know about taxes, record keeping and accounts, as well as key dates for your diary.

Sole Trader

Register as self-employed

WHEN?

You must notify HMRC of the potential chargeability to Tax & National Insurance Contributions by 5 October following the end of the tax year in which the business started. So, the deadline for the 2020-21 tax year would be 5 October 2021.

You can register [online](#)

Self-Assessment Tax Returns

WHEN?

You must file your [Self-Assessment Tax Return](#) before:

- 31 October following the end of the tax year for a paper return
- 31 January following the end of the tax year for an online return

Failure to meet these deadlines can result in penalties from HMRC.

Keep your records

It's a requirement to maintain your business records so that you can accurately declare business income and expenditure within your Self-Assessment Tax Return – you can find [more guidance here](#).

Deductions

Deductions can be made against your business income for **expenses that are related to your business**, for example if you buy a laptop solely for work purposes. You'll need to keep evidence such as receipts or invoices.

Capital costs

Before claiming a deduction, you need to decide whether the expenditure is revenue or capital.

- Relief for revenue expenditure (expenses relating to the general day to day business activity) is given in **the year the expenditure is incurred**.
- Relief for capital expenditure (expenses relating to the business assets/premises) is either given by way of Capital/Annual Allowances where **relief may be spread over the useful life of the asset purchased**, or it's given against Capital Gains Tax upon the sale of the business premises.

Trading allowance

You can get up to £1,000 in tax free allowances for trading. If your annual gross trading income is £1,000 or less from one or more trades, you may qualify for full relief. If that income is more than £1,000, you may qualify for partial relief.

Your accounts

You don't have to hire an accountant, but it's usually best to have an accountant prepare your annual business accounts if you're not confident in completing them yourself, as incorrect accounts can result in fines.

Profits, Tax and National Insurance

There are special rules in determining the level of profits that are assessed for Tax & National Insurance in the early years and final year of trade. It depends on your choice of accounting date and whether the earnings or cash basis method has been used.

Losses

If your business makes a loss, relief can be given in one of four ways. You can decide how best to use any loss relief and to claim the relief within your Self-Assessment Tax Return. This guidance explains loss relief and its limits.

National Insurance

As a sole trader, you'll pay Class 2 and 4 National Insurance contributions. The registration of your business for National Insurance purposes is incorporated within the Self-Assessment registration.

Self-Assessment liability

Make sure you know the dates to pay your self-assessment tax and national insurance liability, as late payments will be charged statutory interest and penalties.

Partnership

Registering with HMRC

When a new partner joins, you should notify HMRC by 5 October following the tax year in which they joined.

Limited Liability Partnerships (LLP) and Limited Partnerships (LP) are automatically registered for self-assessment by Companies House. General partnerships need to register with HMRC directly.

What paperwork will I need?

- ✓ Form SA400 – register a new partnership
- ✓ Form SA401 – register a new individual partner who's joining an existing partnership
- ✓ Form SA402 – register a new partner who is not an individual (e.g. a trust or a company) who's joining an existing partnership.
- ✓ Submit Form 64-8 to HMRC to permit HMRC to deal with your accountant.
- ✓ A Partnership Tax Return (SA800) must also be filed, with each partner's share of the profits or losses.

What will I have to pay?

Each individual partner is treated as a sole trader for National Insurance and Self-Assessment purposes. The same deadlines and penalties apply.

Once HMRC has been notified, they will issue a Unique Tax Reference (UTR) for the partnership and for each partner. Partners who have previously been self-employed will carry their UTR into the partnership.

Nominated partner

Your nominated partner is initially responsible for dealing with HMRC.

THEY WILL:

- ✓ Sign the Partnership Tax Return
- ✓ Receive and distribute correspondence relating to partnership as a whole
- ✓ Only be responsible for payment of income tax on partnership profits on their own share

Limited Company

Registering at Companies House

To set up a private limited company, you 'incorporate' the company by registering online at Companies House.

You will need a company name, an address for the company which will be its registered address, at least one shareholder and at least one director who is over 16 years of age.

Registering with HMRC

After registering with Companies House, information is usually sent automatically to HMRC, but you are still required to register with HMRC within three months of starting to do business. Starting to do business includes buying, selling, employing someone, advertising, renting a property etc. There may be a penalty for late registration.

- 1 Register online, or use an agent (usually your accountant) or third party software
- 2 You'll receive a **10-digit Unique Taxpayer Reference (UTR)** for the company, together with form **CT41G (Corporation Tax – Information for New Companies)**.
- 3 Use your UTR to register your company online.

During the registration process, HMRC will provide you with a Government Gateway account which will enable you to sign up for corporation tax, PAYE and other online services and will also enable you to complete online returns.

Remember, HMRC and Companies House are two separate organisations with different filing requirements that you must observe as part of your company obligations.

VAT

Please refer to the VAT guide on the FSB Legal Hub to check if you have to register for VAT. ????????????????