

101 Business Tax Tips

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By

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About This Guide

All businesses, large or small, like to save tax and there are many simple steps that a business can take to achieve this aim.

This guide contains 101 tax savings tips aimed at entrepreneurs and business owners. The tips follow the lifecycle of a business meaning that there is something for everyone, regardless of whether you are thinking of starting a business, you have recently started a business or you are running an established business. Many of the tips apply equally to sole traders, partnerships and companies; however, some are specific to a particular type of business.

It should be noted that tips in this guide are for illustration purposes only and are intended to demonstrate where tax savings can be made. The savings that can and will be made in practice will depend on the precise circumstances and the examples are a guide only. Professional advice should always be sought.

Chapter 1.

Business Structure

1. Choose The Right Structure For Your Business
2. Choose Which Taxes You Pay
3. Take Advantage Of The Veil Of Incorporation
4. Save Incorporation Costs
5. Create Different Categories Of Shares In A Limited Company
6. Keep Administration Costs Low
7. Keep All Business Profits For Yourself
8. Maximise The Skill Base
9. Agree The Split Of Partnership Profits And Losses
10. Consider Purchasing An Existing Business
11. Run A Franchise

1. Choose The Right Structure For Your Business

There are various ways in which businesses can be structured, and it is important that the structure that is chosen is the right one for the business.

There are four main options:

- sole trader;
- partnership;
- limited liability partnership; *and*
- limited company.

The choice of business vehicle determines the type of taxes you pay, your liability for business debts and the legal and administrative requirements imposed on the business. It will also affect the way in which business decisions are made and the sources of finance available to the business.

In deciding on the right structure for the business, it is necessary to take account of all relevant factors and also your attitude to risk.

A sole trader is the simplest set-up and the proprietor gets to keep all of the profits. However, he or she is also liable for all of the business debts. The sole trader is taxed on his or her total income after deducting his or her personal allowances – the profits of the business are not taxed separately but form part of the sole trader's taxable income, together with income from other sources, such as any employment or investment income. A sole trader must also pay Class 4 National Insurance contributions (NICs) if their profits exceed the lower profits limit.

A limited company is more complicated to set up and administer, but the shareholders' liability is limited to the amount of capital that they own – a major plus. The company is taxed in its own right, and any profits that are extracted from the company will be taxed on the recipients. The tax

position of the company is separate from that of the individual shareholders. The company must file annual accounts and an annual confirmation statement at Companies House. They must also comply with obligations regarding their registered office address and the provision of an email address. Being a director of a limited company also confers certain statutory duties. Identification verification procedures are also to be phased in from Spring 2025, and anyone running, owning or controlling a company will need to verify their identity.

Choose The Right Structure For Your Business

Bill wants to set up his own business. He has some money to invest but does not want to risk losing his family home if the business fails.

He is also keen to present a professional image to potential customers to help him win new business.

Having considered all the factors, Bill decides that a limited company is the right vehicle for his business. Limited liability is very important to him and he is prepared to undertake the additional administrative burden associated with running a limited company in return for this.

2. Choose Which Taxes You Pay

The choice of business vehicle will determine which taxes are paid by your business. Sole traders and partnerships pay income tax on their profits and Class 4 NICs whereas a limited company pays corporation tax. However, there may also be income tax to pay on profits extracted from a limited company, and where those profits are extracted in the form of a salary or bonus, Class 1 NICs may be payable by both the company and the recipient. If the company provides benefits in kind, the company may have to pay Class 1A National Insurance, while the benefit may be taxable in the hands of the recipient.

The profits from a sole trader's business and a partner's share of partnership profits are taken into account in working out his or her overall income tax liability, together with income from other sources, such as any employment income, taxable interest and dividend income. Personal allowances may be available to reduce the amount on which tax is charged. To the extent that business profits exceed the proprietor's personal allowance (where available), they are taxed at 20%, 40% or 45% for taxpayers in the UK excluding Scotland (Scottish taxpayers are taxed at the Scottish rates of income tax).

By contrast, the taxable profits of a company are taxed at the corporation tax rate, which for the financial year 2025 is between 19% and 25% depending on the level of the company's profits. Profits extracted from the company as salary or bonus may be liable to income tax and also Class 1 NICs (employer's and employee's). However, salary and bonus payments and the associated employer's National Insurance are deductible in computing profits chargeable to corporation tax. Likewise, where benefits in kind are provided, the cost of the benefit is deducted in calculating the company's taxable profits, as is any associated Class 1A National Insurance paid by the employer on those taxable benefits. There is no corporation tax

deduction for dividends, which must be paid out of retained profits. However, in the hands of the shareholder, they are tax-free to the extent that the dividend allowance (and any unused personal allowance) is available and, once these have been used up, any excess is taxed at the relevant dividend rate of tax. Dividends are treated as the top slice of income.

Gains realised by individuals are liable to capital gains tax, whereas a company pays corporation tax on chargeable gains.

All businesses with turnover of VATable goods and services above the VAT registration threshold, set at £90,000 from 1 April 2024, must register for VAT. VAT-registered businesses must comply with the requirements of Making Tax Digital (MTD).

A sole trader and an individual partner in a partnership are self-employed for tax and National Insurance purposes and are liable to pay Class 4 contributions on their profits if their profits exceed the lower profits limit.

The payment of National Insurance builds up their entitlement to the state pension and certain contributory benefits. A National Insurance credit is available where profits are at least equal to the small profits threshold, but below the lower profits limit, and this will provide the self-employed earner with a qualifying year free of charge. Although the liability to pay Class 2 National Insurance contributions was abolished from 6 April 2024, self-employed earners with profits below the small profits threshold can choose to pay voluntary Class 2 contributions. This is a much cheaper option than paying voluntary Class 3 contributions.

Companies do not pay National Insurance on their profits but must pay employer Class 1 contributions on payments of earnings made to employees and Class 1A contributions on taxable benefits in kind.

It is possible to choose which taxes and class of National Insurance you pay by choosing the business structure to which those taxes apply – the taxes that are paid on business profits and gains vary depending on the structure of the business.

It is important when choosing a structure to consider not only the current rates of tax, but also any future changes where these are known.

The personal allowance is set at £12,570 for 2025/26. It will remain at this level until 6 April 2028, after which it will be increased in line with inflation. The basic rate band is set at £37,700 for 2025/26 and the additional rate threshold is set at £125,140; both will remain at these levels until April 2028, rising in line with inflation thereafter.

Choose Which Taxes You Pay

Richard wants to set up a business. Having considered the options, he decides that being a sole trader is the right decision for him.

Richard will pay income tax on any profits from his business. His income tax liability will depend on his total income from all sources. He will benefit from the personal allowance (unless his adjusted net income exceeds £125,140).

He will pay capital gains tax on any capital gains made from the sale of business assets, etc. where his net chargeable gains for the tax year exceed the annual exempt amount.

He will also pay Class 4 contributions on his profits where his profits exceed the lower profits limit.

If his turnover exceeds the VAT registration threshold, he must also register for VAT. If his turnover is below this level, he can register voluntarily as this will allow him to recover any VAT