Business Planning

helping you to focus on the important things

Forrester Boyd
CHARTERED ACCOUNTANTS

Business planning involves formulating a strategy to maximise profitability, minimise your taxes, and drive your business forward.

Table of Contents

Business Structures

Tax changes over recent years have made it increasingly important to consider carefully whether it is best to run your business as a sole trader (an individual), a partnership (two or more individuals or companies), a limited liability partnership (LLP) or a limited company.

Should you form a limited company?

There is no easy answer to this question. Each situation must be judged individually. As well as the tax and national insurance issues, you will need to consider such things as the nature and expected rate of growth of the business; the degree of commercial risk; administrative obligations; pensions and retirement; and your personal preferences.

In the early years of a business, operating as a sole owner is often attractive because funds can be used with fewer restrictions. But as your business grows, there may be advantages to incorporating.

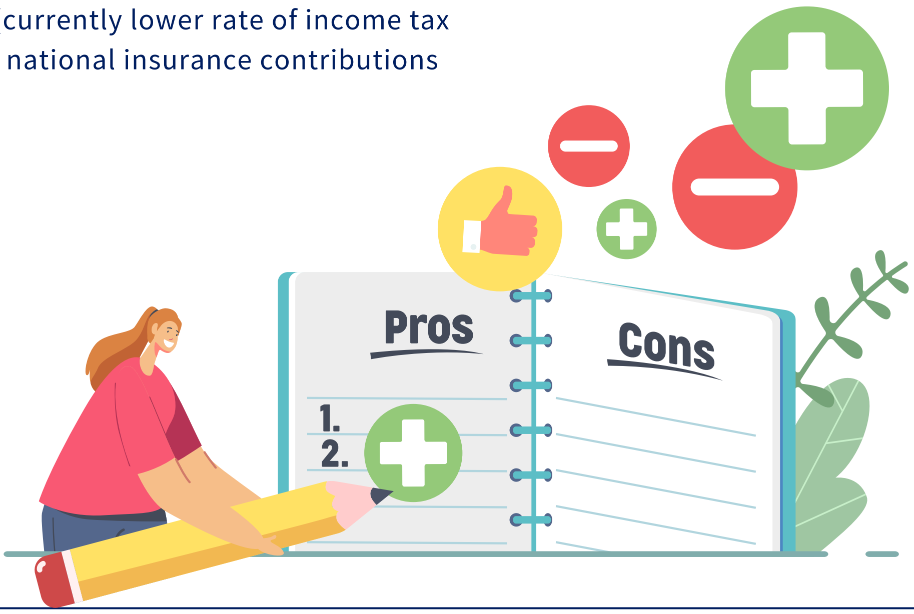
Advantages of incorporation can include:

- Limited liability – a shareholder, having paid fully for shares, cannot normally be required to invest any more in the company, although personal guarantees may be required.
- Legal continuity – companies are separate legal entities, can exist indefinitely, own property, sue and be sued.
- Ownership transfers – effective ownership or part ownership of the business may be readily transferred.
- Dividends – retained profits are free of income tax, but shareholders can be paid in dividends (currently lower rate of income tax and free of national insurance contributions (NICs)).

Disadvantages of incorporation

There may also be disadvantages to forming a limited company.

- Strict company law formalities must be observed.
- There may be legal and administrative costs, including new accounting records, a new PAYE system, a new business tax reference, new VAT registration and new stationery.
- The company will be taxed on the profits of each accounting period and a company Tax Return must be filed.



Should I be VAT registered

You should notify HMRC if your taxable turnover for the last 12 months exceeds £85,000, or if there are reasonable grounds for believing that your turnover will exceed £85,000 in the next 30 days.

If your turnover is below the £85,000 limit, you can still register for VAT on a voluntary basis.

VAT supplies

VAT law covers all types of supply of goods or services (outputs), whether of a revenue or capital nature. Supplies include the sale, hire or loan of goods, which normally fall into one of the following categories:

- Standard rated – 20%
- Reduced rate – generally 5%, however a 12.5% rate applied to hospitality and tourism from 1 October 2021 to 31 March 2022
- Zero rated – e.g. exports, most food, books
- Exempt – e.g. insurance, education and health
- Outside the scope – e.g. dividends.

VAT schemes

There are a range of schemes designed to simplify VAT accounting obligations and to reduce the cost of compliance for smaller businesses:

Annual accounting scheme

Available for most businesses that expect an annual tax-exclusive turnover of no more than £1,350,000.

✔ **Scheme advantages:**
Under this scheme, agreed monthly or quarterly payments are made on account, and you need only complete one VAT return a year. VAT cash flow is determined in advance and your annual return can be prepared at the same time as your annual accounts.

Cash accounting scheme

Available for those with an annual turnover of below £1,350,000 in the next 12 months. You account for VAT on the basis of payments received and made, rather than on tax invoices issued and received. The main accounting record will be the cash book.

✔ **Scheme advantages:**
In addition to simplified bookkeeping, you will only have to pay output VAT to HMRC when the customer pays.

Flat rate scheme

For businesses with VAT exclusive turnover in the next 12 months to be no more than £150,000 in taxable supplies.

✔ **Scheme advantages:**
Saves time by removing the need to calculate and record output and input tax when calculating the VAT due to HMRC.

VAT on staff expenses

Although the rules normally prevent you from reclaiming VAT on supplies that are not made directly to you, there are certain circumstances when the rules are relaxed.

Where VAT invoices for subsistence costs made out to the employee are reimbursed, the VAT input element may be reclaimed. This also applies where an employee is reimbursed for road fuel, and VAT may also be reclaimed on the fuel element of mileage allowances, as long as appropriate records are kept.

Bad debts

Subject to appropriate records and evidence, VAT may be reclaimed where at least six months have elapsed since the later of the date of supply or the due date for payment. See also: cash accounting scheme.

Fuel scale charge for private fuel

The fuel scale charge applies when a business reclaims VAT on fuel used in business cars for private motoring.

Staff

PAYE and NICs

Pay as You Earn (PAYE) is a system overseen by HMRC under which employers deduct from employees' wages an amount of income tax, national insurance contributions (NICs) and student loan repayments in accordance with PAYE codes, tables and other procedures laid down by HMRC.

The Real-Time Information (RTI) rules require employers to report details of wages and deductions at or before the time of payment.

Employers must pay over the relevant tax and NICs (net of certain adjustments, such as statutory sick pay) each month (or quarter where the expected average monthly amount is less than £1,500).

The key to PAYE deductions

HMRC advises employers which PAYE code to operate for each employee. This code is the key to the amount of tax the employer will deduct from the wages, salary, pension, etc, each week or month.

Essentially, a positive code means that, in calculating the tax to be deducted each pay day, a certain amount is tax-free. The amount in excess of that is taxed at the appropriate tax rates of 20%, 40% or 45%. Different rates ranging from 19% to 46% apply to Scottish taxpayers.

A 'K' code applies where HMRC instructs the employer to add a notional amount to the wages, etc, with the effect that the tax deducted is more than would normally be due. A 'K' code would typically be used when an employee has another source of income to which PAYE cannot be applied – for example, a state pension or benefits-in-kind.

A person's PAYE code might change several times over the course of a tax year, as new information comes to light about their entitlement to allowances and reliefs, or as moves are made to collect through PAYE tax which might otherwise have to be collected from the individual through self assessment.

PAYE for new employers

The new employer

As soon as you take on an employee, you need to contact HMRC and ask them to set up a PAYE scheme for you/your business.

Upon registration, HMRC will send you guidelines, including a number of forms, with which to operate the PAYE and NICs systems. To help you calculate the amount of tax and NICs due, HMRC provides online ‘Basic PAYE Tools’. There are facilities to complete common forms on-screen and you can use the various calculators to work out PAYE tax and NICs, etc.

Compliance visits

It is vital that you take the time to read and understand what is expected of you. HMRC inspection teams can visit you at any time to check that you are operating PAYE properly, and you can be liable for any under-deductions they find.

Compliance visits

It is vital that you take the time to read and understand what is expected of you. HMRC inspection teams can visit you at any time to check that you are operating PAYE properly, and you can be liable for any under-deductions they find.

Again, we can help you prepare for compliance visits to ensure that your business meets the regulatory requirements.

Software

It is perfectly possible to use the Basic PAYE Tools, but other software is available for those who would prefer to use it. However, we would recommend that before you rely too much on the technology, you make sure you understand how PAYE works so you can identify obvious errors.

NIC issues

NIC has been subject to many changes during 2022/23 with an additional 1.25% added to bands and bandings changed from 6/7/22. The 1.25% is set to be reversed 6/11/22.

Class 1 NICs are the contributions calculated every week or month as a percentage of each employee's wages or salary. The employee is the primary contributor and post 6/11/22, will pay 12% of earnings between £242 and £967 per week, and 2% of earnings in excess of £967 per week.

The employer is the secondary contributor and post 6/11/22, will add 13.8% of earnings over £175 per week. The employer rate is 0% for employees under 21 and apprentices under 25 on earnings up to £967 per week.

The liability to primary contributions ends at state pension age, but liability to secondary contributions continues until the employment ends.

Class 1A NICs are payable by employers only and are a contribution in respect of benefits-in-kind (BiK) – company cars, for example, and on payments in excess of £30,000 made to employees when their employment ends, such as redundancy payments.

While Class 1 primary and secondary contributions are calculated each week or month and paid at intervals over the course of the tax year, Class 1A contributions in respect of BiK aren't calculated until after the end of the tax year, when the employer must complete returns of BiK and expenses payments. Once those figures are compiled, the Class 1A contributions can be calculated and the NICs paid.

Returns are due to be filed no later than the 6 July following the end of the tax year, and the Class 1A NICs are payable by 22 July or 19 July if paying by post.

The 'employed/self-employed' question

If you engage someone to work for you, it is up to you to satisfy yourself as to the employment status of the worker. If the worker is self-employed, then there is no need to operate PAYE and all payments can simply be made gross on the terms agreed with the worker.

However, if the worker is an employee, PAYE applies and not only should PAYE tax and NICs be deducted from the employee's earnings, but you are also liable for secondary NICs.

If you treat as self-employed someone who should be categorised as an employee, you may find that not only are you liable to account for the tax and NICs you should have deducted, plus the secondary NICs, but that you're also liable in other ways.

Employers have faced difficulties over claims for unfair dismissal, etc, from people who, to save tax and NICs, had argued at the time they were engaged that they were self-employed.

Minimising your tax bill

Tax deductible expenses

You will pay tax on your taxable profits, so it is essential to claim all deductible expenses. These will include all the direct costs and overheads you incur in running your business. You will need to keep adequate records.

Generally, it is better to incur expenditure just before the end of your accounting year, rather than just after, because you will be able to obtain tax relief one year earlier.

Involving the family

Employing family members and paying them a salary and benefits can be tax-efficient, but you will need to be able to justify the amount paid. Bringing family members into the business can give you flexibility and potentially prove a very tax-efficient way of passing on the family business. There are, however, anti-avoidance provisions that need to be considered. Depending on the circumstances, it may also be beneficial to bring family members onboard as partners or company shareholders.

A word about VAT

VAT registration is mandatory for most businesses once turnover has exceeded £85,000 in the last 12 months, or is expected to exceed £85,000 in the next 30 days. Under the Making Tax Digital for VAT (MTD for VAT) regulations, most businesses with a turnover above the VAT threshold are required to keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software. Please speak to us for advice.

Capital allowances

Most businesses are able to claim a 100% Annual Investment Allowance (AIA) on the first portion of expenditure on most types of plant and machinery (except cars). The AIA applies to businesses of any size and most business structures. Any annual expenditure over these amounts enters either the 18% pool or the 6% pool, attracting a writing down allowance at the appropriate rate.

The maximum amount of the AIA depends on the accounting period date and expenditure date. From 1 January 2019, the AIA increased to £1 million for three years, reverting to £200,000 on 1 January 2022. Following the mini budget this is to continue permanently.

Between 1 April 2021 and 31 March 2023, companies investing in qualifying new plant and machinery will benefit from new first year capital allowances. A company will be allowed to claim:

- a super-deduction providing allowances of 130% on most new plant and machinery investments that ordinarily qualify for 18% main rate writing down allowances
- a first-year allowance of 50% on most new plant and machinery investments that ordinarily qualify for 6% special rate writing down allowances.

This is not available for unincorporated businesses.

New cars with zero CO_2 emissions also qualify for a 100% FYA. Other cars will enter the 18% or 6% pool according to the level of CO_2 emissions.

Other help and advice

We have a range of guides covering topics such as:

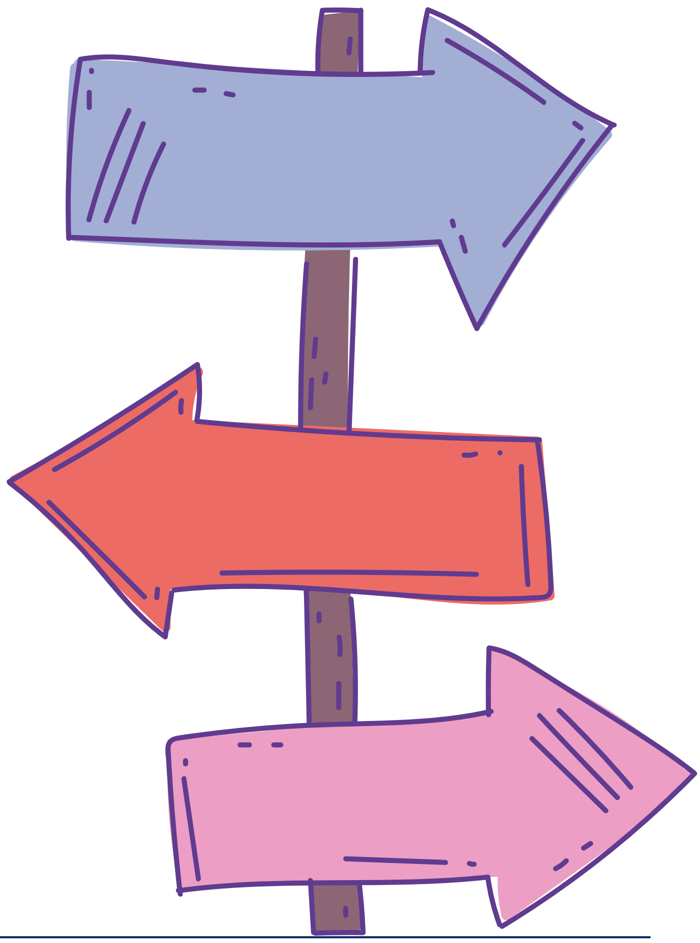
Year-end planning
Tax and financial planning should not be left until the end of the tax or financial year, but should be carried out in advance of your business year-end. Our year-end tax planning guide and handy checklist will help.

Business motoring
This guide is designed to help you organise your business motoring in the most tax-efficient way. From buying or leasing to BiK and salary sacrifice, we provide lots or handy hints and tips in this publication.

Green transport
As we all strive to reduce our impact on the environment, our green transport guide looks at the benefits and schemes around electric or plug-in hybrid cars, vans and even electric bikes. With help to buy schemes and salary sacrifice options, this guide should give you lots of food for thought.

Retirement planning
We all want to have a comfortable retirement, but as people are living longer and enjoying healthier and more active retirement years, will your retirement nest egg deliver what you need? Ask for a copy of this guide, the earlier you plan, the more time your investments will have to grow.

Personal finances
Financial planning for you and your family. Make the most of the tax-free opportunities available to you and your family and keep exposure to marginal tax rates as low as possible.



Get in touch

For more information or advice on any of the topics covered, please do get in touch with your adviser or your local office.

For information of users

This guide is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm.

Date of publication: October 2022

Forrester Boyd
CHARTERED ACCOUNTANTS

info@forrester-boyd.co.uk
www.forrester-boyd.co.uk

Grimsby :	**01472 350601**
Louth :	**01507 606111**
Scunthorpe :	**01724 863105**
Skegness :	**01754 761777**
Beverley :	**01482 889400**
Hull :	**01482 889400**