



## A Guide to Business Taxes



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Starting and running a business can be a daunting thought especially when it comes to taxes. Even with the help of an accountant during the year, it makes sense to have a basic knowledge of the taxation system to help your own planning of finances.

Thankfully, we've put together a brief handy guide to help you with deciphering the wonderful world of taxes!



## Income Tax

Income tax is paid by individuals, either as an employee through PAYE or through Self-Assessment as a business owner.

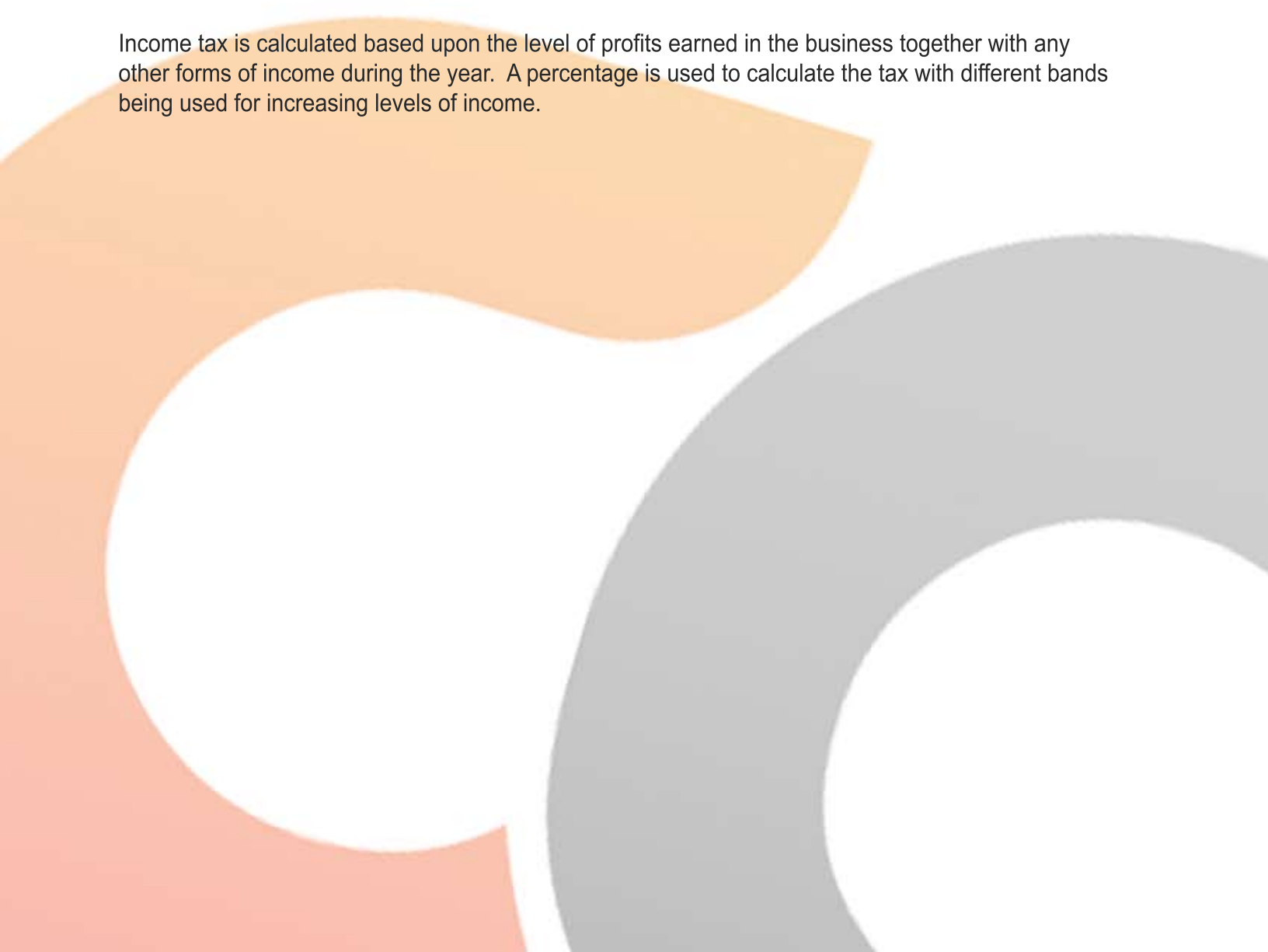
If you run a sole trader or partnership business you will pay Income Tax through Self-Assessment. This tax is generally calculated on the profits you have earned through running your business during the tax year.

The taxes are declared through the completion of the Self-Assessment Tax Return each year. This tax is generally paid in two instalments in January and July with a balancing payment payable in the following January.

As a director of a limited company you may also fall under the Self-Assessment tax system if you draw out dividends or earn other income over and above your declared wages.

Everyone has a tax free personal allowance of income they can earn without being charged tax. As a business owner, you are still eligible for this allowance. This means that any income generated up to the tax free threshold is tax free each year.

Income tax is calculated based upon the level of profits earned in the business together with any other forms of income during the year. A percentage is used to calculate the tax with different bands being used for increasing levels of income.



## National Insurance

National Insurance is generally regarded as another form of taxation and is payable by any employee, employer and any business owner earning over and above the National Insurance threshold.

There are many different types of National Insurance depending on whether you are an employee, employer or business owner. However, we'll take a look at business owner related ones.

**Class 2 National Insurance** is paid by all business owners earning above the National Insurance threshold. This is a weekly amount that is usually paid monthly or quarterly to HMRC.

**Class 4 National Insurance** is also paid by business owners earning above the National Insurance threshold. Similar to Income Tax, it is charged on a percentage of your business profits and is payable together with Income Tax on the Self-Assessment tax form.



## Corporation Tax

A limited company has its own form of Self-Assessment taxation system, called Corporation Tax.

This tax is calculated based upon the profits the company generates during the accounting period.

Similar to Self-Assessment, Corporation Tax is declared on a Corporation Tax Return which is submitted to HMRC within 9 months of the year end of the company. Payment is also due within 9 months of the year end and is generally paid in one lump sum.



# VAT

VAT is a direct tax which businesses charge on their sales. VAT is voluntary when income is below the VAT threshold. However, once income exceeds the threshold all business must register for VAT unless they are deemed exempt.

Not all products and services are subject to VAT so not every business can charge VAT.

Once registered for VAT, you submit VAT returns to HMRC usually on a quarterly or annual basis. Although you must charge VAT on the sales you generate you are able to claim back VAT on the products or services you purchase. This means that when completing the VAT return you pay the difference in the amount you have charged against the amount you have been charged by your suppliers.

There are various different VAT schemes on offer to help your business manage VAT.

Declaring VAT on the invoices you have sent and received during the VAT period is known as **Standard VAT Scheme**.

Declaring VAT when you actually make a payment against an invoice or when a customer makes a payment against your sales invoices is called **Cash Account Scheme**.

The **Flat Rate Scheme** was a scheme set up to make the calculation of VAT easier. A percentage is used based upon gross income during the VAT period but no amount is taken on purchases. The percentage is specific to the industry that you operate in.

Finally, **Annual Accounting Scheme** is when the VAT is paid monthly or quarterly during the year but is based upon the previous year's VAT liability. When the VAT return is submitted at the end of each year a balance payment, or refund is then duly paid.