

# THE SMARTA GUIDE TO

# TAX

## Part 1: The Main Taxes

**\$marta**  
TAX SERVICES

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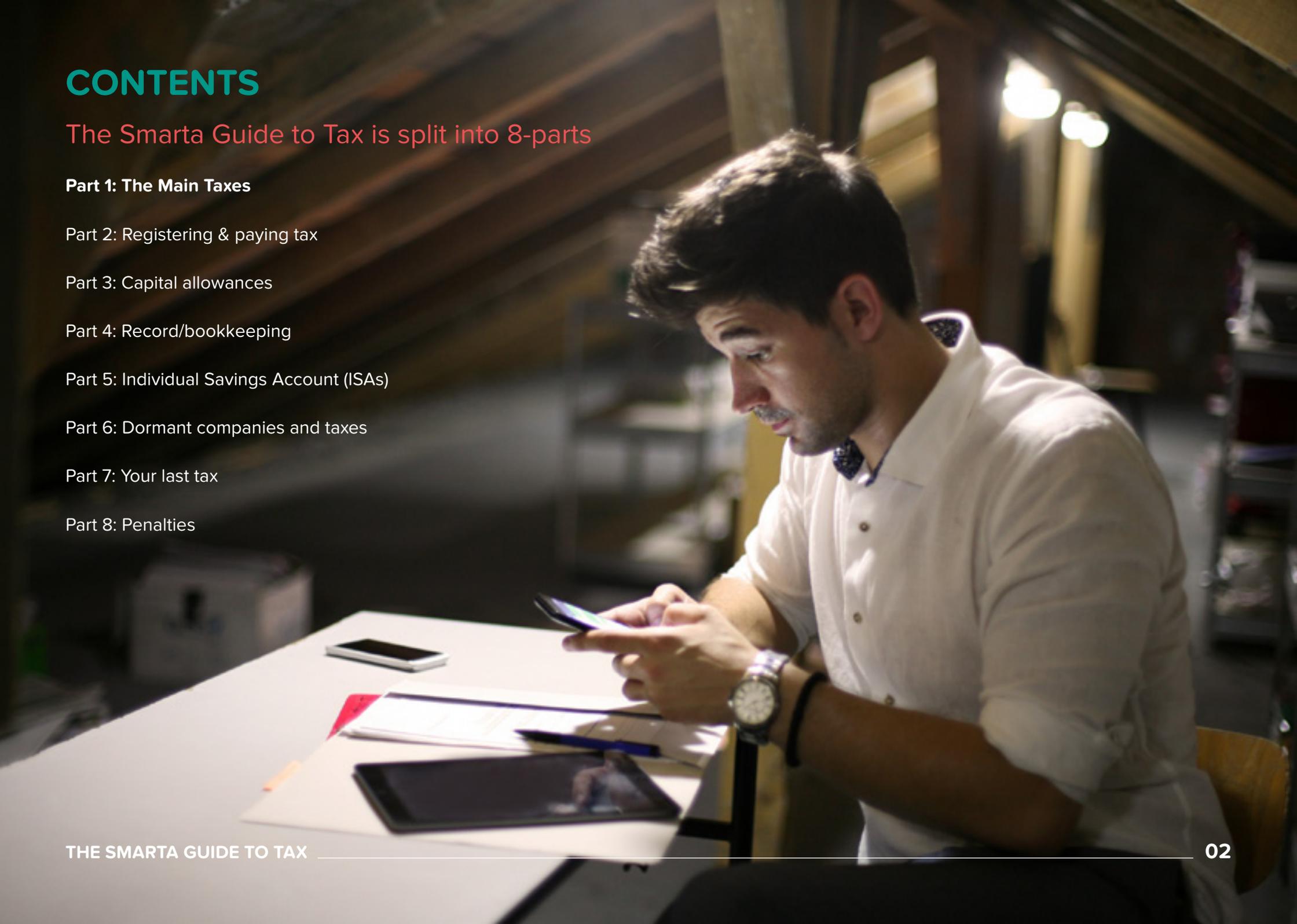
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**Taxes are simply unavoidable and, if you're a small business owner, it's best that you know your way around them and their millions of acronyms.**

Although there are multiple taxes, each with their own rules and regulations making it seemingly impossible to comprehend these mandatory financial charges; we have put together this comprehensive 8-part guide on all things tax. It covers both the basics and the more complex aspects of the world of taxation and is essential reading for any and all small business owners. Whether you're an expert on tax or a novice to the subject, we hope this guide will have something for you.

If you need further support on your business' tax or accounting, then contact [Smarta Tax Services](#) today.

Smarta also offer further aid for small businesses. We have a thoroughly in-depth and expansive blog site ([www.smarta.com](http://www.smarta.com)) with all the information and help you could possibly need when starting up your own company. Additionally, we offer the Smarta Business Builder, a monthly subscription service that provides you will all the tools you would need to start, manage and grow your business. If you're looking to register as a limited company, then Smarta Formations is one of the simplest and quickest ways to incorporate your business.

## THE MAIN TAXES

Although you may encounter dozens of different forms of taxation as a business owner, including tax on your products and anything you import/export (see Smarta's guide on [exporting](#) for more information), there are a few main forms of tax you need to be aware of so, in this first section, we're going to take a look at the main types of taxation.



## Value-added tax (VAT)

VAT, or as it is known in some countries, goods and services tax (GST), is a consumption tax (a tax on goods and services) that is collected on a surplus of items at the end of every stage of production or distribution. Since 2011 it has been at a set rate of 20% in the UK. Some goods are not taxed or receive a reduced taxation rate, notably food (0%) and fuel (5%). Therefore, any product or service your business provides is likely to be subject to VAT. Note, when selling products to charities you may not have to include VAT charges.

Any business which has a VAT taxable turnover of over £85,000 must register with HMRC online or by post using form [VAT1](#), for VAT. Your business's VAT taxable turnover is simply the total value of anything you sell that is not exempt from VAT. When registering your business will be given a VAT number that you will use each year when you come to file your VAT returns.



## Corporation tax

Corporation tax is a tax on a limited company's profits. The current corporation tax rate, **set by the government**, is currently 19% but, is set to lower to 17% by 2020 under the Conservative government. Some costs can be deducted from your company's profits – notably any running costs of your business which you or your employees do not receive any personal benefits from.

- You can also claim certain reliefs. For example, any projects that “make an advance in science or technology” (UK Gov) can apply for a Research and Development tax relief. Additionally, if your company is closing or you are becoming a sole trader or limited partnership, you could claim the Disincorporation Relief, which allows for the transfer of assets without taxation.
- HMRC intend a company to calculate their own liable tax each year (as most businesses have a 12-month accounting period) through the tax return form, CT600. The payment of your business's taxes should be made nine months and one day after the end of your accounting year so, for instance, if your accounting year ends on 31 January, you must file your tax returns on 1 November.
- Finally, by law, **you must keep records of every tax return your business files for at least six years**, as well as copies of any tax-related documentation such as receipts. These must be made available to HMRC upon request.

## National Insurance (NI)

Both you and your employees must pay National Insurance Contributions (NICs) toward state benefits and notably your NI and state pension. Anyone over the age of 16 making more than £157 per week is expected to pay NI, as well as anyone who is self-employed making £6,025 and over per year. Although contributions made to NI go toward state-sanctioned benefits for you, they are basically another form of tax that is deducted from your pay check.



**There are four classes of NI that determine how much you should pay:**

- **Class 1** is for employees earning more than £157 a week who are under the State Pension age (65). Business owners and employers should deduct the correct amount from any employees pay check.
- **Class 2** is home to any sole trader/anyone who is self-employed making less than the required £6,025, but who still want to make contributions toward their NI.
- In this case, any deductions are counted as ‘voluntary contributions’, which are also made by people in **Class 3**.
- **Class 4** is for self-employed workers who make over £8,164 a year in profit.

Voluntary contributions to NI are simply when you choose to deduct a certain amount of money from your wages to go toward a state pension. These types of payments are primarily used by workers who have gaps in their NI records so cannot receive the full state pension. After filling these gaps through voluntary contributions one can receive a full state pension so, if you’re planning to leave work early, we suggest that you keep a little money on the side to make ends meet later.

If you are a sole trader or your boss doesn’t cover the paying of NI, in order to make NICs you need to fill out the self-assessment tax return. This can be done both online and by post is sent to HMRC. The final deadline for this annual form is 31 January.



## Pay as you earn (PAYE)

**PAYE** is a scheme that allows HMRC to deduct income tax from everyone's earnings. An employer should handle the administration of PAYE and operate this as a part of employees' payrolls, as you would for NICs. PAYE is **not applicable for anyone making less than £113 a week**. For anyone who is a sole trader or self-employed, making PAYE payments is covered in the self-assessment tax return.

Business owners and employers are expected to make PAYE payments directly to HMRC; a report in the form of a full payment submission (FPS) should be sent before or on payday. Records of payroll and deductions made to wages should be kept by a business for up to at least three years.



## Capital Gains Tax (CGT)

CGT is a more recent tax imposed on business by the government that taxes any profits your company makes on the selling of assets that aren't gifts, therefore, CGT covers most items. There is, however, a tax allowance that every business has of £11,300 (or £5,650 for trusts), which means that you only have to pay CGT if your business's overall gains/profits exceed these amounts.

The current rates are 28% of your gains for residential property and 20% on any other assets. Reporting your CGT can be done instantly to HMRC using their 'real time' service or annually if your self-assessment tax return.

On the bright side, if you are a sole trader or business partner who has owned a business for over one year, any CGTs will be less due to Entrepreneurial Reliefs. A flat rate of 10% of gains made by sole traders and business partners on assets has been set by HMRC.



## Stamp Duty Land Tax (SDLT)

The SDLT is a tax on land or property you buy over a certain price in England, Wales and Northern Ireland. Currently, the bar for SDLT is £125,000 for residential properties and £150,000 for non-residential land or property – if the cost of what you purchase exceeds these values, you'll have to pay SDLT. When a transaction is made that fits the fields approve, one must submit a SDLT return to HMRC within 30-days of the sale to avoid a fine.

There are some exceptions to SDLT that may reduce the amount tax you must pay, these are primarily useful for charities and any company transferring property or land to another (however this may involve paying CGT).



## Dividend tax

If you own shares with your company or another, you may be taxed on them. Any dividends valued above £5,000 are subject to taxation within three different brackets. The bracket or rate which you must pay depends upon which Income Tax band (i.e. the amount of money you earn that is taxable); the three brackets are the basic rate at 7.5%, the higher rate at 32.5% and the additional rate at 38.1%. Note, that you do not pay tax on dividends from share in an ISA.

You can pay dividend tax by contacting HMRC directly if it amounts to less than £10,000 in revenue. If it is over £10,000 – or you simply wish to use this method – you can use your self-assessment tax return to declare any dividend taxation.



## Business rates

When buying non-domestic property, for example, a shop or factory building, under UK law, you are subject to business rates. Your local council will calculate the business rates for your company and send them to your registered business address every year in February/March. If you think the rate they send you is either too low or high, you can contact them directly or the Valuation Office Agency (VAO) to have this altered.

Upon moving business premises or adding building work to your office address, you should conduct the VAO so they can alter the business rates for your company. Note: you do not have to pay business rates for a home-based company, unless you live above a commercial shop or people visit your property to purchase goods and services. An easy way to get around this is simply posting goods.



So, there you have it, the main eight types of taxation you are likely to encounter as a small business owner. Handling these federal duties can be both expensive and difficult, but there are accountants out there who can handle a lot of the bureaucracy for you and even pay some forms of tax directly without you having to worry about it. For example, Smarta is partnered with Sage and you can use their accounting services too by using the Smarta Business Builder to help the day-to-day running of your company.

In guide 2, we're going to have a look at how to register to pay various types of taxation.

## Further reading and references

In this section, we have put together a list of the best resources that are set to help you and your small business grow, and answer any further questions you might have about taxation.

### [Smarta Tax Services](#)

Smarta Tax Services will provide you with a personal experience with a dedicated Accountant that will ensure you keep track of day to day operations of your business, and you've completed all areas required to comply with HMRC and Companies House. Our trusted accountancy software allows transparency and you'll have 24/7 access online, so you can keep track of your business performance.

### [www.smarta.com/blog/](http://www.smarta.com/blog/)

Smarta's blog has thousands of articles to help you in your business endeavours. We would recommend our content on how to find accountant, helping your business with tax.

### [www.gov.uk](http://www.gov.uk)

The UK's government's website also has guides to help you and your business, additionally, here, you can use HMRC's online portal to pay tax.

### [www.which.co.uk/money/tax](http://www.which.co.uk/money/tax)

Which? also offers many different guides to help you save and spend money appropriately; their few guides on taxation go into intimate detail.

### [The Daily Telegraph Guide to Tax](#)

Every year the Daily Telegraph publish an in-depth

guide to taxation with all the dates and changes made to the taxation for that specific. Usually, they are published in May so, it is worth looking out for the 2018 edition in a few months.

### [www.uktaxcalculators.co.uk](http://www.uktaxcalculators.co.uk)

This site is updated yearly to accurately calculate the amount of any form of tax your business may own.

### [www.taxguideforstudent.org.uk](http://www.taxguideforstudent.org.uk)

The Tax Guide for Students is a site that provides information for university students on taxation, how much they should be paying and if they appeal to HMRC for any reductions. The information they create will be extremely beneficial if you are a student looking to start your own business whilst in education.

### [www.taxcafe.co.uk](http://www.taxcafe.co.uk)

Tax Café is an award-winning website that focusing on the UK tax system – it is of particular use for information about property tax and letting.

### [www.moneysavingsexpert.com](http://www.moneysavingsexpert.com)

Martin Lewis offers plentiful advice on all things monetary including tax. Although his guides are quite simple and largely aimed at families, it's worth a look.

### [www.cartaxguide.co.uk](http://www.cartaxguide.co.uk)

It does what it says on the tin: the Deloitte Car Tax Guide offers users all the information they could want about the taxation of company cars, including a calculator to help you avoid penalties for inaccuracy.

### [The Bloomsbury Professional Tax Guide 2017/18](#)

Published bi-annually, The Bloomsbury Professional Tax Guide provides a more complex analysis of UK and global taxation.

### [www.taxaid.org.uk](http://www.taxaid.org.uk)

TaxAid offers help to anyone with tax-related problems; while their site has blogs on tax, they also provide volunteer helpline advisors who can sort out your problems over the phone.

### [www.searchaccountant.co.uk](http://www.searchaccountant.co.uk)

This directory allows you to search for the best accountants up and down the UK, to help with your business's tax returns.

### [www.tax.org.uk](http://www.tax.org.uk)

The Chartered Institute of Taxation is British NGO whose members are all highly qualified in dealing with any tax-related issues.

## Glossary of acronyms

**HMRC:** Her Majesty's Revenue and Customs

**VAT:** Value-added tax

**GST:** goods and services tax

**NI:** National Insurance

**NICs:** National Insurance Contributions

**PAYE:** pay as you earn

**FPS:** Full payment submission

**CGT:** Capital Gains Tax

**SDLT:** Stamp Duty Land Tax

**PLC:** Private Limited Company

**UTR:** Unique taxpayer reference

**LLP:** limited liability partnership

**PSC:** personal service company

**AIA:** Annual investment allowance

**ISA:** Individual savings account

**NGO:** non-governmental organisation

**DOR:** Debt Order Relief

**NT:** Nil Tax Code

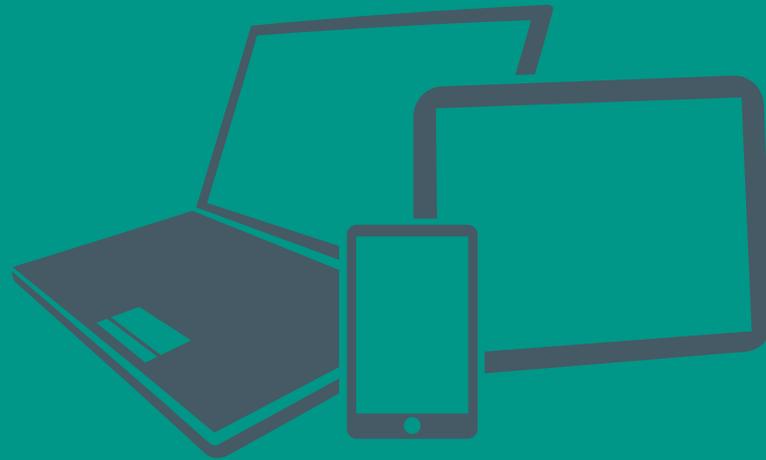
**IPA:** Income payment agreement

**IPO:** Income payment order

**PLR:** Potential loss revenue

**TTP:** time-to-pay

**CIS:** Construction industry scheme



Find out more at  
[tax.smarta.com](https://tax.smarta.com)

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