

THE SMARTA GUIDE TO

TAX

Part 7: Your last tax

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TAX SERVICES

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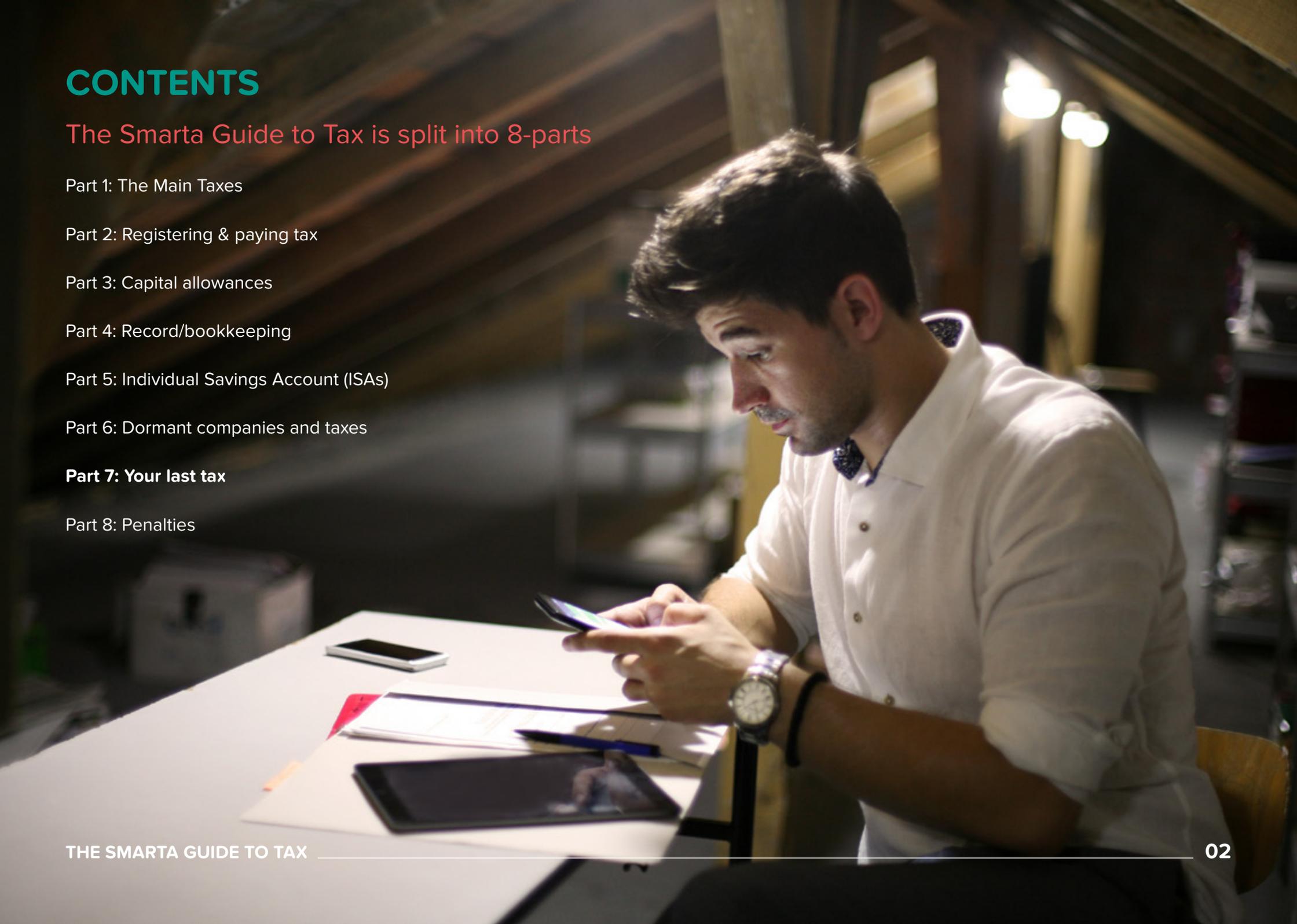
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Taxes are simply unavoidable and, if you're a small business owner, it's best that you know your way around them and their millions of acronyms.

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) 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.

YOUR LAST TAX

Now, we know that occasionally times are rough when you're running your own start-up or small business, and so for the next few sections we are going to take a look at what tax fees you may have to pay in the winding up of your company, starting with insolvency.

This may be a key area for you, so please do reach out to our [Smarta Tax Services](#) team and a dedicated accountant will be on hand every step of the way.



Insolvency

In quite basic terms, insolvency comes in two forms, but both involve your business being unable to make payments, whether that be to clients, HMRC or other businesses and retailers. Cash-flow insolvency is when a company's assets are valued highly enough to be able to pay-off any debt incurred. Balance-sheet insolvency is the opposite: assets cannot cover costs, and so one might enter bankruptcy but, more often, you would enter negotiations to solve monetary issues without becoming bankrupt (more on this when we come to liquidation).

When it comes to selling your business's assets to make ends meet you will largely encounter two types of taxation. Firstly, you will be required to pay Corporation Tax on profits or gains you make from the selling of these assets – if any. Additionally, if your business is VAT-registered you will have to organise the payment of any VAT to HMRC that has not already been accounted for in your last VAT return. You must send a paper copy of the VAT return via post to HMRC, and this is usually handled by the practitioner that is put in place when insolvency is declared. Note: you will still have to file for VAT even if you have reached an agreement on how to pay off any debt.

Shareholders in a company may also be taxed when it enters a period of insolvency. If a shareholder keeps any revenue gained through the selling of assets after debts are settled, they are liable to income or dividends tax, and that should be filed via the self-assessment tax return. Furthermore, no tax will be charged opposed to income tax if all the following apply: the company's debts are settled and collected, and the amount you receive is £25,000 or less.



Bankruptcy

Declaring bankruptcy occurs when a business cannot pay its debts and no agreement is reached between the debtor and creditor. The process itself is quite simple, it allows you to share your assets among all those whom you owe money to and, following this, you can incorporate a new business but, a few restrictions will incur. Furthermore, although in most cases you declare bankruptcy for your individual business, creditors to whom you owe £5000 or more, can make you bankrupt.

Costing-wise, filing for bankruptcy will set you back £680, however, if you owe less £20,000 and no assets or means with which to pay any debt, you can apply for a Debt Order Relief (DOR) that will cost only £90.

A trustee is put in place to control your assets and decide the amount of assets that go to each creditor. If it turns out that you can pay the debt(s) back in full, you can apply to have your bankruptcy annulled.

In terms of tax, as an employee of a business you will not be charged NICs or Income Tax for the rest of that tax period (the tax year ends 5 April). HMRC will apply what is called a 'nil tax code' (NT) to make this so. Regardless, the trustee can claim the extra money you receive to help pay off the bankruptcy as it will be considered 'surplus income'. Said payments can come in two forms: an income payment agreement (IPA) or income payment order (IPO).

An IPA is a voluntary agreement in which you officially state you can and will make regular payments to your trustee to help with the bankruptcy process. An IPO is involuntary and demanded by your trustee, however, you cannot make these payments, the trustee will be able to request to extend the bankruptcy period. Note, even if the period is extended, employees will still only not be taxed until the end of the accounting period.

The bankruptcy process usually takes 12-months, after which a business owner or sole trader to become 'discharged' and so able to start or own another business. No other forms of taxation apply. Following the end of bankruptcy, any remaining assets remain under control of the trustee as they may still need to be used to settle debts. Nonetheless, if this is not the case and you regain the assets for your new business or sell them on, suitable taxation applies on any profits or gains you make.



Liquidation

Liquidation is a way of legally ‘winding-up’ or ending a limited company or partnership. It involves said business or partnership being completely removed from Companies House’s register, and so, in effect, the name of any company can be reused following liquidation.

There are three main ways to enter the process of liquidation. A solvent company (one in credit) whose owners wish to cease trading will go through a members’ voluntary liquidation. An insolvent company can also go through a voluntary liquidation or they may be forced to liquidate due to debt. The entire liquidation process is overseen by an official liquidator.

Notably, if your company is in the process of being wound-up, it is still subject to Corporation Tax; your business accounts will continue to run for the 12-months until the liquidation process is complete. An annual Company Tax Return should be filed and Corporation Tax paid for any profits that arise from the sale of goods or assets – including assets that are sold to cover debt – as well as any income the company makes through trading.

If anyone still holds shares in your business and would like to sell said shares, they will be subject to CGT on any gains they make on dividends. Additionally, as explained in the section above on insolvency, income tax may be charged instead, or in addition to, CGT.

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/

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

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

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

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

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

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

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

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

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

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

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

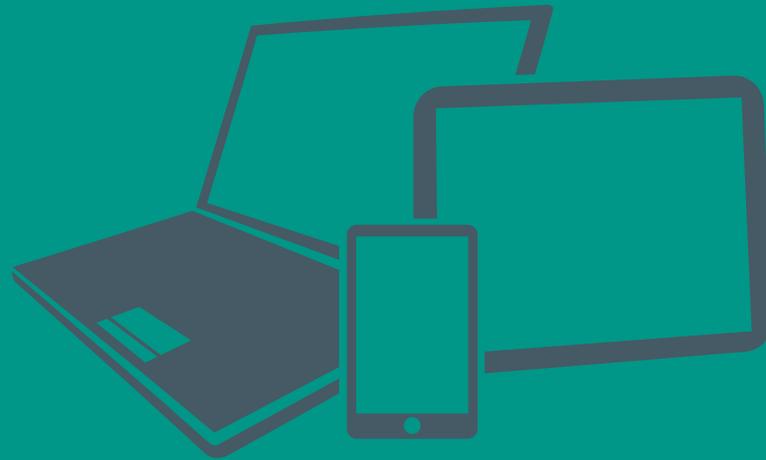
IPA: Income payment agreement

IPO: Income payment order

PLR: Potential loss revenue

TTP: time-to-pay

CIS: Construction industry scheme



Find out more at
tax.smarta.com

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