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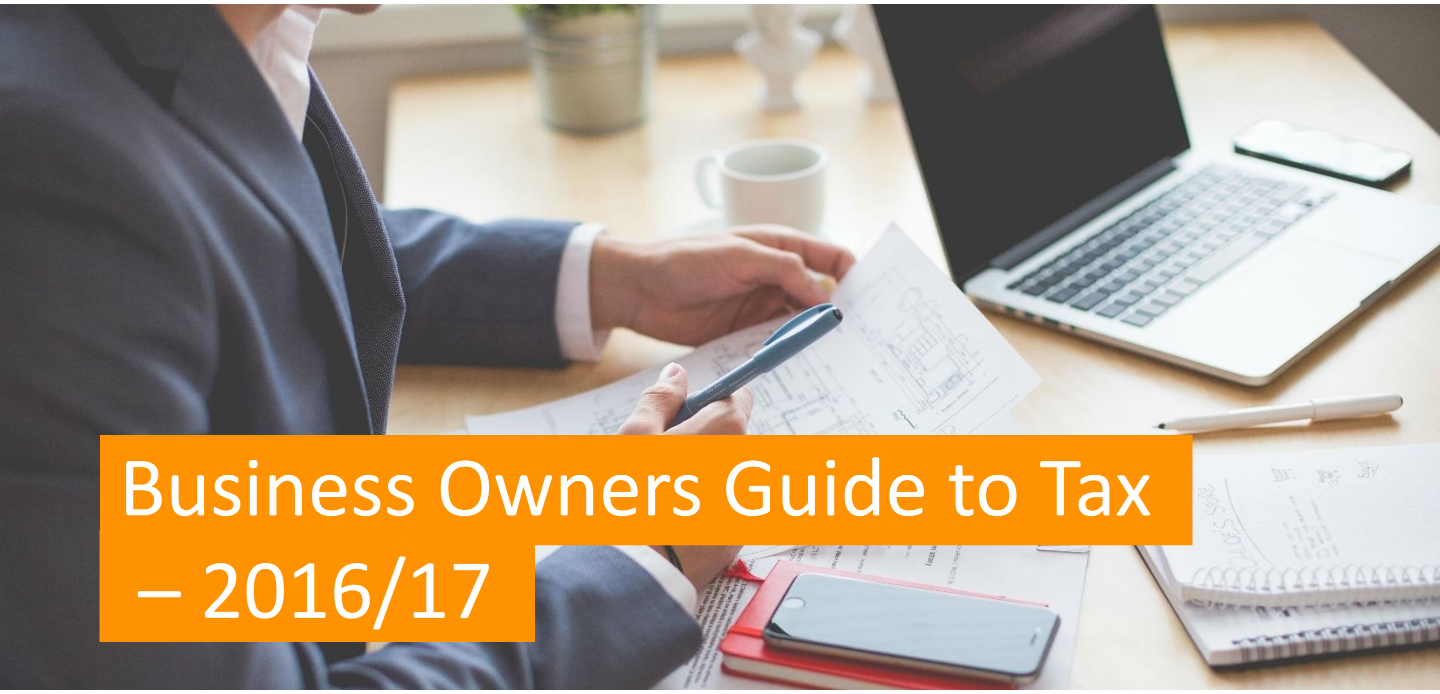

Business Owners Guide to Tax – 2016/17

Introduction

Tax is becoming increasingly complicated and HM Revenue and Customs are looking for more ways to raise money through fines for late or incorrect submissions. As such, it has become more important than ever to maintain good records and meet all the regulatory deadlines.

This guide is intended to help business owners achieve this.

> We are writing this with regard to tax law, up-to-date at October 2016. Please note tax law changes from time to time and you should consider giving us a call if you are not sure before taking any action (or deciding not to take action) based on any of the issues we raise in the guide. Please note there is an "Autumn Statement" which will be made on 23 November 2016.

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Making Tax Digital

HM Revenue and Customs' new digital system intends to change the tax system significantly in the next few years and may even mean the end of the tax return.

The Revenue call the new digital system "**Making Tax Digital**" (MTD) with the aim to gradually move the tax system closer to real time submissions, closing the gap between actual company performance and the performance seen in the latest filed accounts.

HMRC have stated that they want business owners to keep their records using digital tools and send that information "at least quarterly to HMRC".

Robinsons have responded to the challenge of MTD by developing our collaborative accounting solution with a new software which will mean we will be acting as your team in the digital accounting function.

To make sure the transition to MTD is smooth for all of our clients we will be offering to be on hand all year round to help with both bookkeeping and data capture.

Robinsons solution is to be "constantly connected". This enables us to provide a range of solutions from training over the internet, investigating problems and the direct input of bookkeeping, using select software to work with your existing systems.

In our experience this software has already begun to help business owners reduce the time spent on the accounting process and related administrative work.

We can therefore now provide with confidence a solution that allow us to work with you even though we are not located in the same office.

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October 2016

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Business taxes

The main taxes business owners will encounter are dealt with in this guide under the following headings:

1. Income tax for Self-employed
2. Income tax for Company Directors
3. Corporation tax
4. Capital Gains tax
5. VAT
6. Pay as you earn (PAYE) and National Insurance (NIC)
7. Investment in your business

Appendix: Tax thresholds, rates and codes

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Income Tax for Self-employed

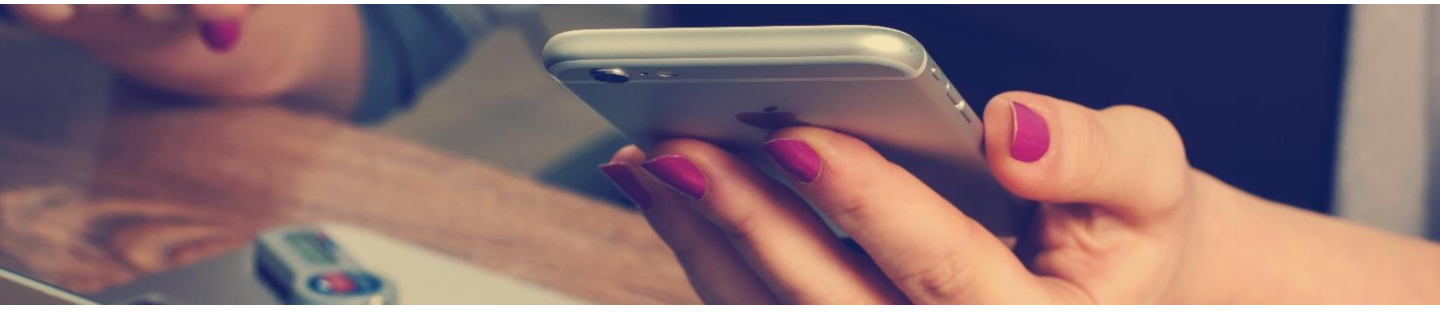
The Self-employed (sole traders and partners in a partnership) are taxed via the Self Assessment system each year, and pay tax and National Insurance Contributions on their business profits after deductions for expenses.

Sole traders

To become a sole trader, you'll need to:

- Register as Self-employed with HM Revenue and Customs (HMRC) to make sure you pay the correct Income Tax and National Insurance.
- Keep records of your business income and outgoings.
- Pay your tax each year, usually in 2 payments on the 31st January and 31st July.

If you are a sole trader you must register for VAT if you expect your takings to be more than £83,000 a year.



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Registering as Self-employed

When you start your business you must register as Self-employed with HM Revenue and Customs within certain strict time limits. More details about how to register as Self-employed can be found on the Government website.

Compiling and submitting tax returns

After you have registered as Self-employed, you will normally be sent a Self Assessment notice following the end of each tax year, which runs from 6th April to 5th April every year.

The deadline for submitting a paper tax return is the 31st October after the end of the tax year. However, the vast majority of returns are now filed online and the deadline for submitting a return online is the 31st January, after the end of the tax year.

Paying tax as a sole trader

Any tax you owe for that tax year, must be paid in full by the 31st January deadline. You may also have to make ‘payments on account’. These are advance payments towards the tax you are likely to owe for the current tax year.

“Payments on account” are payable to HMRC in two instalments every year, the first on 31st January and the second on 31st July. Each payment is equal to half the amount of tax you owe for the previous tax year.

Paying National Insurance

All Self-employed and Directors earning over a certain threshold will also pay National Insurance Contributions (NICs). The amount you have to pay depends on the level of your earnings. If you are a sole trader you will pay the National Insurance in a lump sum at the end of the tax year.

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Partnerships

In a business partnership, you and your business partner (or partners) personally share responsibility for your business.

You can share all your business's profits between the partners. Each partner pays tax on their share of the profits.

As a partner you will be personally responsible for your share of:

- any losses your business makes
- bills for things you buy for your business, like stock or equipment

You can set up a limited liability partnership if you don't want to be personally responsible for a business' losses. These structures are complicated and you should consider obtaining the appropriate legal advice if you want to set one up.

You must choose a name for your partnership and register it with HM Revenue and Customs (HMRC).

Partnership tax responsibilities

The nominated partner must send a partnership Self Assessment tax return every year.

All the partners must:

- send a personal Self Assessment tax return every year
- pay Income Tax on their share of the partnership's profits
- pay National Insurance

Again the partnership will normally also have to register for VAT if you expect its takings to be more than £83,000 a year.

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Income Tax for company directors

If you are, or have recently become, a company director you will have a considerable number of new responsibilities and tax will be just one of them.

As a director of a limited company you can take money out of the company in the form of salary, expenses and benefits.

Director's salary

If you pay yourself a salary you need to register a pay-as-you-earn salary scheme. This is known as a PAYE scheme. For a summary of director's PAYE and National Insurance responsibilities see section 6.

The company must then take Income Tax and National Insurance contributions from your salary payments and these must be paid over to HMRC along with employer's National Insurance contributions.

Benefits

If you or one of your employees makes personal use of something that belongs to the company (for example a company car) you must report it as a benefit (Form P11d) and pay any tax due.

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Dividends

If you are a director and also own shares in the company you will need to, from time to time, consider whether to pay a dividend.

A dividend is a payment a company can make to its shareholders. For each dividend a declaration is required and this is recorded on a “voucher” and distributed to shareholders. Dividend vouchers are often asked for by HMRC so it is essential that they are completed on a timely basis.

The basis of taxation of dividends changed in April 2016.

From 6 April 2016, a dividend allowance of £5,000 per year is available to all taxpayers. The rate of tax on dividend income above that allowance is 7.5% for dividend income falling in the ‘basic’ rate band.

The rate above that is 32.5% (higher rate band) and 38.1% for dividend income falling within the additional rate band.

Taxation of dividends, and whether you should pay a salary or declare a dividend as a director has become complex. Specific guidance is outside of the scope of this general introduction, but it may be helpful to obtain advice at an early stage if your directors duties require you to make decisions regarding these areas.

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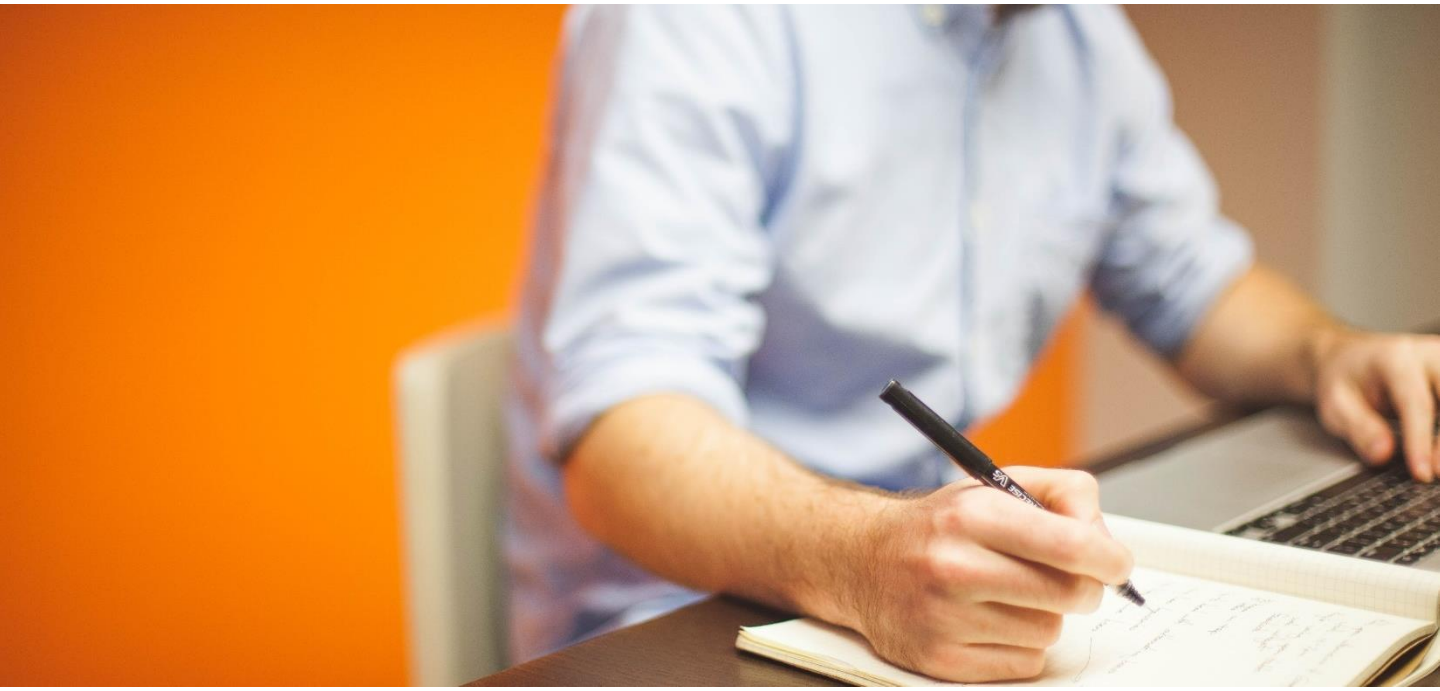
Director’s loan tax

If you take money out of the company and it’s not a salary or dividend it is called a “director’s loan”.

There are detailed and complex rules for how tax is determined on director’s loans.

From 6 April 2016 the tax charge on outstanding loans to participants increases to 32.5% for loans, advances or arrangements made on or after 6 April 2016.

An “overdrawn” loan account may create complications for both the company and its directors.



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Corporation Tax

If you operate your business through a limited company you also have to consider Corporation Tax. The company will pay Corporation Tax on its profits.

You can deduct the costs of running your business from your profits before tax when you prepare your company's accounts.

Some expenses are not allowed to be deducted. For example, entertaining clients. These items need to be "added back" when the company is preparing its Corporation Tax accounts and Corporation Tax Return.

You may also be able to make a claim for:

- Research and development relief.
- The patent box.
- Relief for creative industries (CITR).

The rate of Corporation Tax is 20%.

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Capital Gains Tax

You may as a business owner have assets in your business which are subject to Capital Gains Tax if you sell them. Business assets you may need to pay tax on include land and buildings, shares, plant and machinery, trademarks; and goodwill of the business.

You normally pay tax on the gain, which is usually the difference between what you paid for your business asset and what you sold it for. You can deduct certain costs of buying, selling or improving your asset from your gain.

You may be able to reduce or delay the amount of Capital Gains Tax you have to pay if you're eligible for tax relief. Some of the main reliefs are listed below:

Relief	Description	Eligibility
Entrepreneurs' Relief	Pay 10% Capital Gains Tax on qualifying profits if you sell all or part of your business (instead of the normal rates).	For sole traders, business partners or those with shares in a 'personal company'
Business Asset Rollover Relief	Delay paying Capital Gains Tax when you sell or dispose of some types of asset if you replace them.	Buy the new asset within 3 years of disposing of the old one. Use the old and new assets in your business.
Incorporation Relief	Delay paying Capital Gains Tax when you transfer your business to a company.	Transfer all your business and its assets (except cash) in return for shares in the company.

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VAT – Value Added Tax

As a business owner you may need to register for VAT if your turnover exceeds certain levels. As at October 2016 the limit is £83,000.

Currently you may have to also complete EC Sales lists if your turnover exceeds £106,500.

There are also various schemes you can enter if your turnover is within certain limits, such as the "Flat Rate Scheme" and "Cash Accounting Scheme".

There are different thresholds for VAT retail schemes.

From January 2015 VAT rules for place of supply changed for sales of digital services from businesses to consumers.

For cross border supplies of digital services there is no registration threshold and VAT is charged at the rate due in the consumer's country.

If your business is engaged in these type of sales you may need to register for VAT in each EU country where you supply digital services to consumers or use the VAT Mini One Stop Shop (MOSS) scheme in one EU country.

Submitting your VAT Return

If registered for VAT, you are normally required to submit a VAT return every 3 months.

You are required to submit a return even if there is no VAT to pay.

If you are late you may have to pay an extra amount (surcharge) on top of the VAT due. This can rise to 15% of the tax due, so it is important to ensure you submit returns on time.

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Pay As You Earn (PAYE) and National Insurance (NIC)

PAYE is withholding tax on salary (income) payments to employees. Amounts withheld are treated as advance payments of Income Tax that is due on the salary that the company pays to the individual. If they exceed the tax eventually due the individual can claim a refund, normally within the Self Assessment system. (For detailed notes on Self Assessment see Section 1)

Most people pay Income Tax through a PAYE Tax Code. Your tax code tells your employer how much tax to deduct.

If you are a director of a company you are classed as the employer and the operation of PAYE is your responsibility.

Real Time Information

If you run the payroll yourself you will need to report your employees' payments and deductions to HMRC on or before each pay day. You must keep records of what you pay your employees and deductions made.

As an employer you will need a login for HMRC PAYE Online Service.

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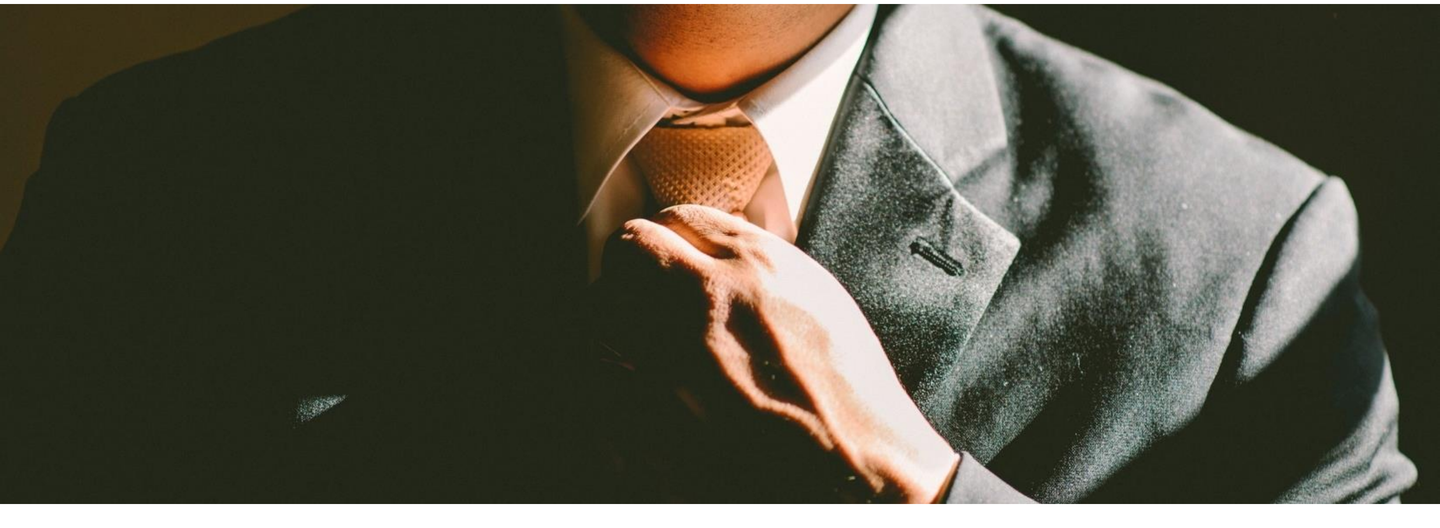
Investment in your business: EIS and VCT

VCT and EIS are in the main for individuals with a specific tax planning objective. These schemes are sometimes used for tax planning in relation to Capital Gains Tax. They normally attract Income Tax relief at 30%. Subject to certain restrictions, the shares may be free of Capital Gains Tax when they are sold.

EIS relief in particular is very complicated and can be lost in many situations. You will almost certainly need to consider getting specialist tax advice if you are considering investing in an EIS company.

Notes: Both VCT and EIS carry risks for the investor. Investment advice should be sought if you are considering these investments.



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Appendix

Tax thresholds, rates and codes

PAYE tax rates, thresholds and codes	2016/17
Personal allowance (under 65)	£11,000
Basic tax rate	20% on annual earnings above the PAYE tax threshold and up to £32,000
Higher tax rate	40% on annual earnings from £32,000 to £150,000
Additional tax rate	45% on annual earnings above £150,000
Personal Savings Allowance	From 2016/17 basic rate tax payers do not pay tax on the first £1,000 of savings income (higher rate £500)
Emergency tax codes	1060L W1, 1060L M1 or 1060L X

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Class 1 National Insurance thresholds

You can only make National Insurance (NI) deductions on earnings above the Lower Earnings Limit (LEL).

NI contribution thresholds	2016/17
Weekly Lower Earnings Limit (LEL)	£112 per week
Weekly Primary Threshold (PT)	£155 per week
Weekly Secondary Threshold (ST)	£156 per week
Upper Earnings Limit (UEL)	£827 per week
Upper Profits Limit (UPL)	£43,000 per year
Upper Secondary Threshold for U21's	£827 per week
Small Profits Threshold (SPT)	£5,965 per year
Lower Profits Limit (LPL)	£8,060 per year
Employment Allowance	£3,000 per year, per employee
Apprentice Upper Secondary Threshold (AUST) for under 25s	£827 per week

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Rates for Corporation Tax years starting 1 April

There are different rates for ring fence companies.

Rate	2016	2015	2014
Small profits rate (companies with profits under £300,000)	-	-	20%
Main rate (companies with profits over £300,000)	-	-	21%
Main rate (all profits except ring fence profits)	20%	20%	-
Marginal Relief lower limit	-	-	£300,000
Marginal Relief upper limit	-	-	£1,500,000
Standard fraction	-	-	1/400
Special rate for unit trusts and open-ended investment companies	20%	20%	20%

From 1 April 2015 there is a single Corporation Tax rate of 20% for non-ring fence profits. From 1 April 2017 the Corporation Tax rate drops to 19%.

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Capital Gains Tax allowances

You only have to pay Capital Gains Tax on your overall gains above your tax-free allowance (called the Annual Exempt Amount).

The tax-free allowance is:

- £11,100
- £5,550 for trusts

The allowance has been the same since 6 April 2015.

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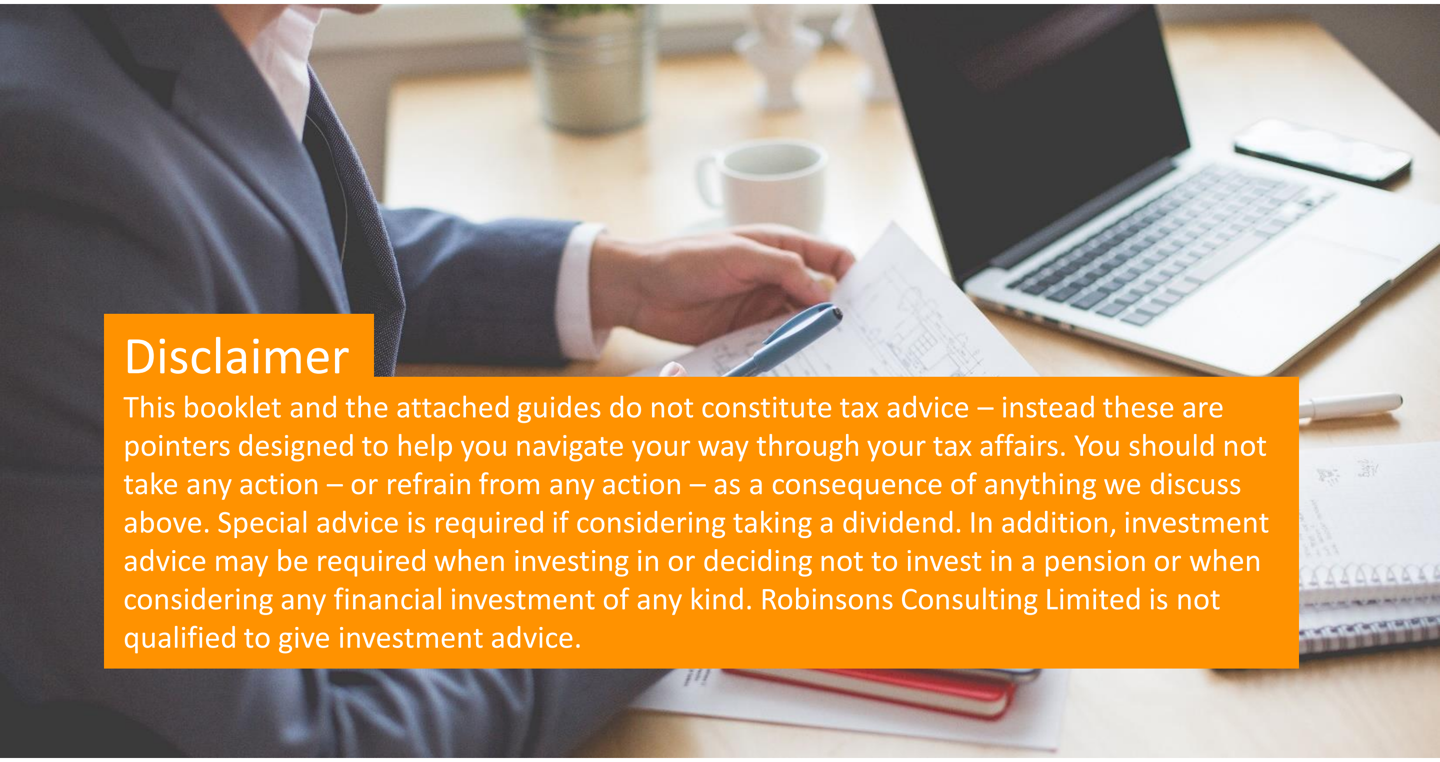

Disclaimer

This booklet and the attached guides do not constitute tax advice – instead these are pointers designed to help you navigate your way through your tax affairs. You should not take any action – or refrain from any action – as a consequence of anything we discuss above. Special advice is required if considering taking a dividend. In addition, investment advice may be required when investing in or deciding not to invest in a pension or when considering any financial investment of any kind. Robinsons Consulting Limited is not qualified to give investment advice.

Thank you for taking the time to read our Tax Guide

If you have any queries about the information provided, large or small, please feel free to get in touch:

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