

# 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



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# 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:



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:



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.



The corporation tax rate has increased from 19% to 25% for companies with profits exceeding £250,000 with a marginal relief for companies where profits fall between £50,000 and £250,000. Profits are taxed at the corporation tax rate and then also taxed once they are extracted via dividend or salary. Therefore, the overall rate of tax should be considered.



# Value Added Tax

## **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%
- Zero rated – e.g. exports, most food, books
- Exempt – e.g. insurance, education and health
- Outside the scope – e.g. dividends.

## **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.

# 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 later than 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 & 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).

There is also an employment allowance of £5,000 from 2023 to 2024, however this is for eligible companies only.

## 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 payday, 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 47% apply to Scottish taxpayers.



## The key to PAYE deductions (Continued)

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.

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

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 pays 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 adds 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.

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. The benefits of this are reported on a P11D.

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.

This is a complex area and the legislation does not determine when someone is employed or self employed. We therefore have to rely on HMRC practice and case law. Due to this, each case needs to be considered carefully on its own merit meaning the same treatment cannot be used for all workers.





# 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.

# Capital Allowances

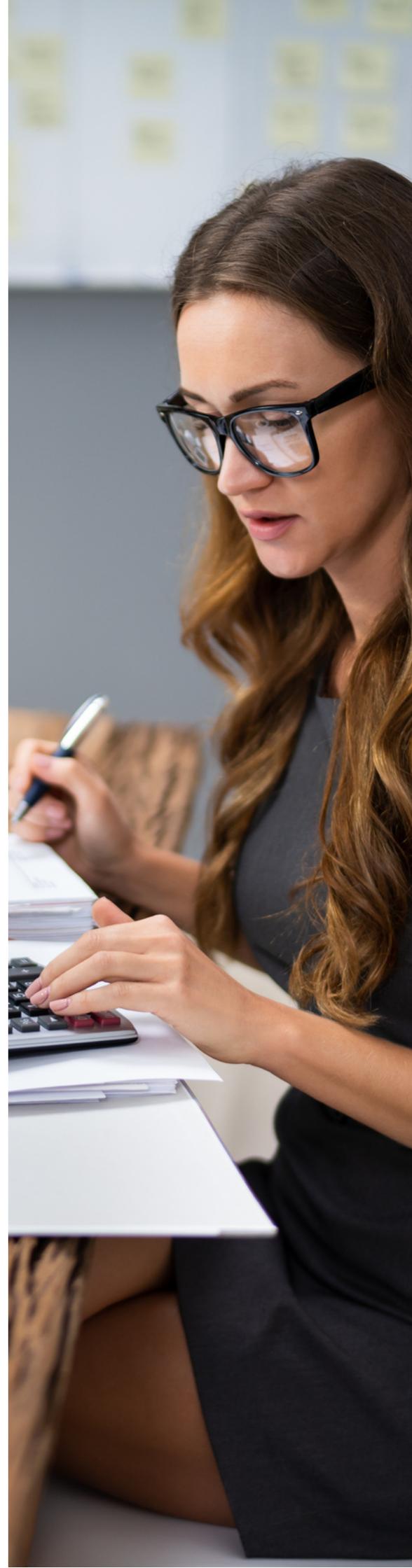
Most businesses are able to claim a 100% Annual Investment Allowance (AIA) on the first portion of expenditure on most types of plant and machinery (except cars). The AIA applies to businesses of any size and most business structures. Any annual expenditure over these amounts enters either the 18% pool 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 March 2023 (legislation published 15/03/2023).

Now the super-deduction has ended, the government is now introducing 'full expensing', a 100% First Year Allowance (FYA) on main rate and 50% on special rate, from 1 April 2023 until 31 March 2026. This means that companies will be able to write off the full cost of qualifying main rate plant and machinery investment in the year of investment. This is only open to companies paying corporation tax and not to partnerships and unincorporated businesses. This is due to it being designed to relieve the increased CT rate. The plant and machinery must be new and unused and not a car. Any non-qualifying assets such as an asset bought second-hand will still get AIA (if AIA qualifying).

This is not available for unincorporated businesses.

New cars with zero CO2 emissions also qualify for a 100% FYA. Other cars will enter the 18% or 6% pool according to the level of CO2 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 of 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 Today

For more information please do get in touch with one of our advisors at your local office.

## Our Offices:

- ✓ Grimsby
- ✓ Louth
- ✓ Scunthorpe
- ✓ Beverley
- ✓ Lincoln
- ✓ Hull
- ✓ Skegness



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