

Business Finances Series

How to organise your Business taxes

TED

Tourism
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Programme



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How to organise your business taxes

Tourism NI

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Managing your taxes Overview

What?

- What is the tax?

Who?

- Who is affected?

How?

- How do you manage it?

What taxes do you need to organise?



1. Income tax

2. Corporation
tax

3. Value Added Tax
(VAT)

4. Other taxes

Registration for taxes

Self-employed (sole trader): <https://www.gov.uk/register-for-self-assessment>

Limited company: <https://www.gov.uk/limited-company-formation/setup-your-company-for-corporation-tax>

Employer: <https://www.gov.uk/register-employer>

VAT: <https://www.gov.uk/register-for-vat/how-register-for-vat>

(1a) What is income tax?

A tax on earnings in your personal name....

Chargeable:

- Employee: Salary, using your tax annual personal allowance (2023/24: £12,750)
- Self-employed: Profit i.e. sales less allowable expenses (Allowance: £12,750)
- Shareholder: Company dividend
- Basic rate 20% (higher rates 45% & 50%)



Collected either by:

- Employer: Under PAYE from employee through payroll system – automatic
- Self-employed: Directly through your self-assessment tax return (complete online by 31 Jan annually) – not automatic

Paid to HMRC either by:

- Employer: Through PAYE – by 22nd of the next tax month if it is paid monthly
- Self-employed: Through self-assessment tax return – by 31 Jan and 31 Jul deadlines (in the year after tax year)
- Partner: Through partnership tax return and self-assessment – by 31 Jan and 31 Jul deadline

(1b) Who is affected by Income tax?

- Employees (including as a director of your company) – Pay As You Earn (PAYE)
- Self-employed – as a sole trader (and as employer - PAYE)
- Partner in a partnership structure (and as employer - PAYE)
- Limited company – as employers (PAYE) and as shareholders

(1c) How do you manage income tax?

- **PAYE** – Employee does not have to do anything (although do check it!)
- **PAYE** – Employer:
 - Deduct from an employee's salary (using PAYE tax code and rate [20% basic rate])
 - Must submit an online (RTI) report to HMRC at each salary payment date
 - Should use a bookkeeping system or standalone payroll system (internal or outsourced)
 - Must pay by 22nd of next tax month e.g. salary paid 31 Jul, PAYE tax due by 22 Sep
 - **Set up a direct debit!**
- **Self-assessment** – as self-employed (or partner or shareholder):
 - Earnings tax year 6 Apr 2022 – 2023, income tax due by 31 Jan 2024 (+50% advance for 2023/24)
 - Remaining 50% for 2023/24 due by 31 Jul 2024
 - Build a reserve – set aside the funds in a deposit account
 - **Set up a direct debit (one-off) or a Budget Payment Plan (monthly)!**

(1d) Income tax example

Self employed (sole trader) – y/end 31 March

Sale/Invoice on 12 Apr 2022	£1,000
Cost of sale	(£200)
Overheads approx.	<u>(£50)</u>
Net Profit	<u>£750</u>
Tax @ 20%	(£150) Payable by <u>31 Jan 2024</u>

Time lag is the issue - so set it aside or pay it early

(2a) What is corporation tax?

Tax on earnings in your company name....

Chargeable:

- On “profit” after your allowable expenditure (no corporation tax allowance)
- Main corporation tax rate 25% (increased from 19% from 6 Apr 2023)
- Small company rate 19% (up to £50k net profit – marginal relief £50k - £250k)

Collected by either:

- Payments on account (voluntary) – direct bank transfer or bank card
- Direct debit (one-off)

Paid by limited companies actively trading (i.e. not dormant):

- Corporation tax return due within 12 months of company year end
- Corporation tax payable – 9 months + 1 day after year end e.g. 31 Dec y/end – tax payable by 1 Oct

(2b) Who is affected by corporation tax?

- Corporations i.e. registered limited companies
- Charities (registered companies) where they are involved in “trading”
- Clubs – community or sports clubs

(2c) How do you manage corporation tax?

- Tax return - complete it on time ****Government Gateway portal****
- Tax payment - pay it on time; within 9 months of company y/end (31 Dec, pay by 1 Oct)
- Time lag - set aside corporation tax when you are paid (estimate 15% - 20%)
- Allowable expenditure - know what this is (inc. capital costs) – tax on profit, not sales

(2d) Corporation tax example

Limited company – y/end 31 December

Sale/Invoice on 1 Jan 2022	£1,000
Cost of sale	(£200)
Overheads approx.	<u>(£50)</u>
Net Profit	<u>£750</u>
Tax @ 19%	(£142.50) Payable by <u>1/10/2023</u>

Time lag is the issue – so set it aside or pay it early

(3a) What is Value Added Tax?

A tax on sales made by an organisation....

- You must register for VAT if:
 - your total VAT taxable turnover for last 12 mths > £85,000 (VAT threshold) or
 - you expect (annual) turnover > £85,000 in next 30 days
- Different VAT Schemes – speak to your accountant

(3b) Who is affected by VAT?

- Self-employed**
- Partnerships**
- Limited companies**

** (Whether registered for VAT or not)

- Everyone!

(3c) How do you manage VAT?

- If registered - you charge (and collect) VAT on your sales (standard rate 20%)
- You (may) pay VAT on your supplies/purchases (standard rate 20%) - even if not registered
- You pay the difference to HMRC after submitting a (usually) quarterly VAT return
- Making Tax Digital is here already for VAT registered businesses
- There are different VAT Schemes and rules:

<https://www.gov.uk/how-vat-works>

(3d) VAT example

VAT registered business

	<u>Net</u>	<u>VAT (20%)</u>	<u>Total</u>
Sale/Invoice on 1 Jan 2023	£1,000	£200	£1,200
Cost of sale	(£200)	(£40)	(£240)
Overheads approx.	<u>(£50)</u>	<u>(£10)</u>	(£60)
Net Profit	<u>£750</u>		
Net VAT		£150	Payable by <u>8/05/23</u>

Time lag is the issue – so set it aside (shorter)

TIME LAG!



Keep good records and set it aside or pay it early.....

Managing your tax – Sole trader

1. Register for S/E = register for self-assessment (Govt Gateway)
2. When you get paid, set aside 10% - 20% for your income tax
3. Start your tax return early (or tell your accountant) and pay your tax on time
4. Get a good bookkeeping system
5. Add key dates to your diary (remember there are penalties!)

Employer?

1. Register as an employer with HMRC
2. Set up an online payroll system (or use bookkeeping e.g. QuickBooks/Xero/Sage)
3. Collect the PAYE (& National Insurance)
4. Set up a direct debit or pay it directly on time
5. Check your Government Gateway account regularly (at least monthly)

Managing your tax – Limited Company

1. Set up your limited company = register for corporation tax (Govt Gateway)
2. When you get paid, set aside 15% - 20% for your taxes
3. Start your tax return early (or tell your accountant) and pay on time
4. Add key dates to your diary
5. Get a good bookkeeping system

Employer?

1. Register as an employer with HMRC
2. Set up an online payroll system (or use bookkeeping e.g. QuickBooks/Xero/Sage)
3. Collect the PAYE (& National Insurance)
4. Set up a direct debit and/or pay on account on time
5. Check your Government Gateway account regularly (at least monthly)

Managing your tax – VAT

1. Register for VAT (Govt Gateway)
2. When you get paid, set aside 15% - 20% for your VAT
3. Start your VAT return early (or tell your accountant)
4. Get a good bookkeeping system
5. Set up a direct debit and/or pay on account
6. Check your Government Gateway account regularly (at least monthly)

Other taxes

- **Capital Gains Tax** is a tax on the profit when you sell (or 'dispose of') something (an 'asset') that's increased in value [not limited companies]
- **Inheritance Tax** is a tax on the estate (property, money and possessions) of someone who has died (40% rate & normally no Inheritance Tax to pay if below £325,000)
- **Stamp Duty Land Tax (SDLT)** is payable if you buy a property or land over a certain price in England and Northern Ireland

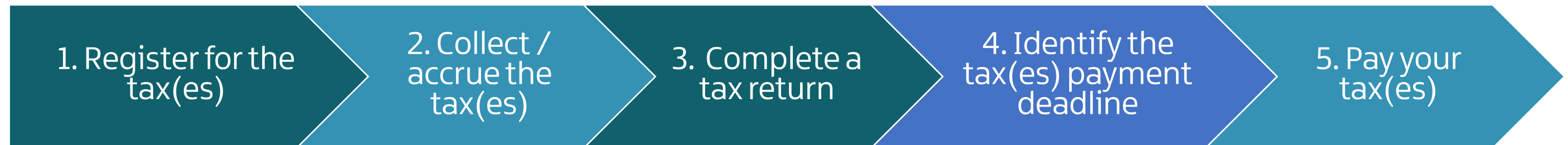
National Insurance Contributions

NICs (technically not a tax!) are used for your eligibility for UK state pension**

Class	Details
<u>Class 1</u>	<u>Employee contributions</u> collected through PAYE (<i>Note: Employers also contribute to National Insurance for employees</i>)
<u>Class 2</u>	<u>Self-employed (basic) contributions</u> collected through self-assessment
<u>Class 3**</u>	<u>Voluntary contributions</u> to fill gaps (https://www.gov.uk/check-national-insurance-record)
<u>Class 4</u>	<u>Self-employed</u> earning profits of £11,909 or more a year, collected through self-assessment

Check it out here: <https://www.gov.uk/national-insurance/how-much-you-pay>

Paying your taxes – key steps



Paying yourself

Self-employed: withdraw from your bank a/c (after setting aside your tax)

Limited Company:

- *Director*: set up a payroll system and pay yourself a wage (tax deductible)
- *Shareholder*: pay yourself a dividend (annually or as agreed with your accountant) – remember to set aside the income tax due on this

UPCOMING tax changes

Making Tax Digital

- Already in place for VAT registered businesses
- From 6 Apr 2026: most sole traders with turnover > £50,000
- From 6 Apr 2027: extended to sole traders with turnover > £30,000

<https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital>

Changes to tax year basis periods (from current year to tax year)

- Tax returns for sole traders and partnerships changing from 6 Apr 2024-25
- If your accounting period ends on 31 Mar or 5 Apr – no effect
- 93% of sole traders and 67% of partnerships already aligned to the tax year
- Many businesses will change year ends to tax year end to avoid need to time-apportion profit

Speak to your accountant.....!

Note.....

Tax rates and rules change

Always check for the latest information on the relevant Gov.uk website

And with your accountant

How to manage your taxes - your next 5 steps....

1. Identify what taxes you may be liable for
2. Register on time for each relevant tax
3. ****Collect and set aside (or pay) your taxes as you go along (Time lag) ****
4. Submit your tax return(s) and pay your tax(es) before the deadline
5. Engage an accountant if you aren't sure or if you don't have the time

TNI existing support.....



<https://www.tourismni.com/business-guidance/business-support/financial-support/>



Thanks!

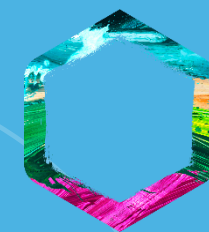
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