

Contents

Contents	3
1 Introduction.....	1
1.1 Registering with HMRC	1
1.2 Choosing an accounting date	2
1.2.1 Overlap profits	2
1.2.2 Higher profits in your final year of trade	4
1.2.3 Change of accounting date.....	5
1.2.4 Allocating taxable business profit to tax years	5
1.3 Taxable trading profits.....	6
1.3.1 Taxable trading profit	6
1.4 Class 4 National Insurance	7
1.5 Class 2 National Insurance	7
1.6 Trading losses	8
1.7 Budget 2021 trading losses – further relief.....	10
1.8 Submitting your tax return.....	11
1.9 Paying your tax	11
2 Housekeeping issues	13
2.1 Bank account	13
2.2 Record keeping	13
2.3 Bookkeeping systems	13
2.4 Profit and loss	14
2.5 Balance Sheet.....	15
3 Methods of accounting.....	16
3.1 Accrual based accounting.....	16
3.1.1 Prepayments.....	16
3.1.2 Accruals	16
3.1.3 Fixed Assets & Depreciation	17
Capital vs revenue.....	17
3.1.4 Bad debts.....	18
3.2 Cash based accounting.....	19
3.3 Simplified business expenses	21

4	Making Tax Digital (MTD)	22
4.1	An Overview	22
4.2	Major changes	22
4.2.1	Quarterly Reporting	23
4.2.2	Improved taxpayer portal	23
4.3	Benefits of MTD	24
4.4	Timescale	24
4.5	Exemption threshold	25
4.6	Penalty Regime for MTD	25
4.6.1	When do the new penalties apply?	25
4.6.2	How will the new penalty regime for Making Tax Digital work?	26
4.6.3	How many points before a penalty is imposed?	27
4.6.4	Time limits for imposing penalties	27
4.6.5	Appealing against penalties	28
5	Allowable business expenses	29
5.1	Advertising and marketing	29
5.1.1	Advertising & PR	29
5.1.2	Hospitality	29
5.1.3	Networking	29
5.1.4	Sponsorship	30
5.2	Bad and doubtful debts	30
5.3	Broadband/internet	31
5.4	Charitable donations	31
5.4.1	Gift Aid	31
5.5	Clothing and uniform	32
5.6	Computer and office equipment	33
5.7	Entertaining customers/suppliers	34
5.7.1	An overview	34
5.7.2	Should I bother recording client entertaining in my accounts	35
5.7.3	VAT	35
5.7.4	Gifts	35
5.7.5	Room Hire	36
5.8	Entertaining employees	37
5.8.1	An overview	37
5.8.2	Who counts as an employee	37
5.8.3	Mixed events – employees and others	37

5.8.4	Christmas party	38
5.8.5	Gifts.....	38
5.8.6	Trivial Benefits	39
5.9	Office Equipment and Plant & Machinery	40
5.10	Goods purchased for resale/stock	40
5.11	Hotel and subsistence	41
5.12	Insurance.....	43
5.13	Living at your business premises.....	43
5.14	Loan interest	44
5.14.1	Bank interest & charges	44
5.15	Mobile phone	45
5.16	Motor expenses	46
5.16.1	Mileage allowance	46
5.16.2	Actual cost	46
5.17	Motorbikes & bicycles.....	48
5.18	Printing, postage and stationery.....	48
5.19	Professional fees	49
5.19.1	Accountancy fees	49
5.19.2	Legal fees	49
5.20	Rent – office, shop, desk space.....	50
5.21	Sales commissions	50
5.22	Software.....	50
5.23	Subcontractors	51
5.24	Subscriptions and publications	52
5.25	Tools	52
5.26	Training and development	52
5.27	Travel.....	53
5.27.1	What is business travel?.....	53
5.27.2	Motor expenses	53
5.27.3	Other Travel Costs	53
5.28	Working from home	54
5.28.1	Simplified method.....	54
5.28.2	Home running costs apportionment.....	55
5.28.3	Mortgage interest relief restriction.....	56
	How will this work in practice?	57
6	Non-allowable business expenses.....	58
6.1	Childcare costs.....	58

6.2	Depreciation/Capital allowances	58
6.2.1	Capital allowances on equipment	58
6.2.2	Capital allowances on cars	60
6.2.3	Cash accounting and capital allowances	61
6.3	Gifts to customers	62
6.4	Gym costs	62
6.5	HMRC fines and penalties	62
6.6	Medical expenses	62
6.7	Non-staff entertaining	63
6.8	Parking fines	63
6.9	Pension contributions	64
6.9.1	Pension contribution limits	64
6.10	Personal clothing	65
6.11	Student Loans	65
6.12	Tax/National Insurance	65
6.13	Working lunches	66
6.14	Your own time	66
7	Becoming an Employer	67
7.1	Registering as an employer	67
7.2	Taking on a new employee	68
7.2.1	Should they be paid through PAYE?	68
7.2.2	Information you need	69
7.2.3	Using the right tax code	69
	Numbers in a tax code	70
	Letters in a tax code	70
	K tax codes	71
	BR and NT	71
	Week 1/Month 1 tax codes	72
	Changes to tax codes	73
7.3	Real Time Information	74
7.3.1	Reporting	74
7.3.2	Penalties for late submission	75
7.4	Paying any NIC/PAYE due	77
7.4.1	Paying online	78
7.5	End of year requirements	79
7.6	Company cars	79
7.7	Auto-enrolment	81

7.7.1	What is automatic enrolment?	81
7.7.2	Will it affect me?	81
7.7.3	When will it affect me?	81
7.7.4	What do I need to do?	81
7.8	Payroll software	82
8	VAT	83
8.1	When to register for VAT	85
8.2	Reclaiming VAT on expenses incurred before registration	85
8.2.1	Pre-registration VAT on goods:	85
8.2.2	Pre-registration VAT on services:	86
8.3	VAT administration	86
8.3.1	How to register for VAT	86
8.3.2	Who should you issue a VAT invoice to	87
8.3.3	What to include on a VAT invoice	88
8.3.4	Time of supply	90
8.3.5	Records to keep for VAT	91
8.3.6	Filing your VAT return online	92
8.3.7	Filing deadlines	92
8.3.8	Payment deadlines	93
	Direct debit	93
	Other payment methods	93
8.4	VAT Penalty System	94
8.4.1	Penalties for Late Submission	94
8.4.2	Penalties for Late Payment	95
8.5	Charging VAT to Charities	96
8.6	VAT MOSS	98
8.6.1	Definition of VAT MOSS	98
8.6.2	The UK leaving the EU	98
8.6.3	Registering for VAT MOSS in an EU member state	99
8.6.4	VAT registration in an EU member state	99
8.7	VAT schemes	100
8.7.1	Cash accounting	100
	Overview	100
	Eligibility	100
	How to join and leave	101

Return and payment deadlines	101
Advantages.....	101
8.7.2 Annual accounting	102
Overview.....	102
Eligibility	102
How to join and leave	103
Return and Payment deadlines.....	104
How much to pay	104
Advantages.....	104
8.7.3 Flat rate	105
Overview.....	105
What are the changes?	105
Who will be regarded as a limited cost trader?	105
What are goods as far as the new rules are concerned?.....	106
An example	107
Who are these measures aimed at?	107
What action do you need to take?	108
Are there any other changes you need to be aware of?.....	108
Eligibility	109
How to join and leave	110
Advantages.....	110
8.8 EU Overseas VAT	111
8.8.1 VAT and service businesses	111
8.8.2 VAT and exporting goods to the EU	112
8.8.3 Zero-rating of goods	113
8.8.4 VAT position for Northern Ireland post Brexit	114
8.9 Issues to be aware of.....	115
8.9.1 VAT on cars.....	115
8.9.2 VAT on fuel	116
8.9.3 VAT on parking	116
8.9.4 VAT on staff business expenses	116
8.9.5 VAT on business entertaining.....	117
8.9.6 VAT on staff entertaining	117
9 Trading & property allowances	118
9.1 Key points.....	118

9.2	Property allowance	119
10	Tax-Free Childcare	120
10.1	Who is eligible?	120
10.2	How does it work?	120
10.3	The differences between tax-free childcare and childcare vouchers	121
10.4	Changing from tax-free childcare to childcare vouchers	121
10.5	Who is better off with tax-free childcare?	121
11	Tax Data	122
11.1	Personal Income Tax Rates	122
11.2	National Insurance	122
11.3	Student loan deductions	123