

# Contents

Contents .....	3
1 Introduction.....	1
1.1 Advantages of trading as a limited company.....	2
1.1.1 Tax savings .....	2
1.1.2 Separate legal entity .....	3
1.1.3 Shareholders.....	3
1.1.4 Limited liability .....	3
1.1.5 Bank loans and overdraft .....	4
1.1.6 Transfer of ownership.....	4
1.1.7 Planning for retirement .....	4
1.1.8 Perception .....	4
1.2 Disadvantages of trading as a limited company .....	5
1.2.1 Losses.....	5
1.2.2 Personal guarantees.....	6
1.2.3 Visibility of results.....	6
1.2.4 Withdrawing funds.....	6
1.2.5 Expenses .....	6
1.2.6 Administration .....	7
2 Sole trader versus limited company for 2025/26 .....	8
2.1 Running your business as a sole trader.....	8
2.2 Trading as a limited company.....	8
2.2.1 Advantages.....	8
2.2.2 Drawbacks.....	9
2.3 Tax comparison .....	10
3 Running a limited company .....	11
3.1 Directors' responsibilities .....	11
3.2 Shareholders agreement.....	11
3.3 Records .....	13
3.4 Signs, stationery and promotional material .....	13
3.4.1 Signs.....	13

3.4.2	Stationery and promotional material.....	13
4	IR35 issues for contractors & freelancers .....	14
4.1	An overview.....	14
4.1.1	Substitution .....	15
4.1.2	Mutuality of obligation .....	16
4.1.3	Control .....	16
4.1.4	Other areas .....	17
4.2	Public Sector Changes .....	18
4.2.1	What are the changes .....	18
4.2.2	How might this affect you?.....	19
4.3	Changes to the Private Sector .....	20
4.3.1	When did these changes take effect? .....	20
4.3.2	Definition of small businesses .....	20
4.4	Summary.....	21
5	Taking money out of a limited company .....	22
5.1	Director's salaries .....	22
5.1.1	Optimum salary.....	22
5.1.2	Administration .....	23
5.2	Dividends.....	23
5.2.1	Overview.....	24
5.2.2	The old rules for dividend taxation pre 2016/17.....	25
5.2.3	The new rules for dividend taxation post 2015/16.....	26
5.2.4	Dividend paperwork.....	27
5.3	Optimum salary vs dividends .....	28
5.3.1	Strategy 1: Take a salary below the NI Primary Threshold.....	30
5.3.2	Strategy 2: Claim the Employment Allowance .....	31
5.3.3	Other dividend levels .....	32
5.3.4	Leaving money in your business.....	32
5.3.5	Other considerations .....	33
	Student loan repayments .....	33
	Child benefit.....	33
	Earnings above £100,000.....	34
	Multiple shareholders.....	34
5.4	Directors' loans.....	34
5.5	Directors' credit balances .....	36
5.6	Other ways to get money out of your company .....	37

6	Income Splitting.....	38
6.1	The strategy .....	38
6.2	Making your spouse a shareholder .....	38
6.2.1	The Risk .....	38
6.2.2	How many shares.....	40
6.2.3	How to issue shares to your spouse .....	40
	On incorporation .....	40
	After incorporation.....	40
6.2.4	Paying a dividend.....	41
6.2.5	Making your partner a shareholder .....	41
6.3	Paying your spouse a salary.....	41
7	Alphabet shares.....	42
8	Dividend waivers .....	43
9	Corporation Tax .....	44
9.1	How corporation tax is calculated .....	44
9.2	Corporation tax rates.....	44
9.2.1	What is the marginal rate of corporation tax?.....	44
9.2.2	Associated companies.....	45
9.2.3	Mitigating the effects of the corporation tax increase .....	46
	Changing your company's year end .....	46
	Impact of changing your company's year end .....	46
	Increase or make company pension contributions.....	47
	Consider alternative methods of profit extraction from your company.....	47
9.3	Registration.....	47
9.4	Filing Dates of Returns .....	47
9.5	Penalties for late filing.....	48
9.6	Payment Dates for Corporation Tax .....	48
9.7	CT61 Returns.....	48
9.8	Time limits for correcting and enquiring into tax returns.....	49
10	Accounting profit.....	50
10.1	Prepayments.....	50
10.2	Accruals .....	50
10.3	Depreciation.....	50
10.4	Deferred tax .....	51
10.4.1	An overview .....	51
10.4.2	An example .....	51

10.5	Bad debts .....	53
11	Allowable business expenses.....	54
11.1	‘Out of pocket’ expenses .....	54
11.2	Benefits in kind.....	55
11.2.1	What are they?.....	55
11.2.2	An example .....	55
11.2.3	Tax free benefits.....	57
11.2.4	‘Trivial’ benefit allowance.....	57
11.3	Mobile phone .....	58
11.4	Broadband/internet .....	58
11.5	Travel costs.....	59
11.5.1	What is business travel? .....	59
	HMRC’s definition of a ‘business journey’ is one which either involves travel:.....	59
	Temporary workplace .....	59
	Temporary workplace – further rules .....	60
	What happens if there is no permanent workplace? .....	61
	Travelling appointments .....	61
	Home based employees.....	62
11.5.2	Business mileage .....	62
11.5.3	VAT on fuel element of AMAP .....	64
11.5.4	Bicycles .....	65
	Claiming mileage .....	65
	Company bicycle .....	65
11.5.5	Other Travel Costs .....	65
11.6	Hotel and subsistence .....	66
11.6.1	Hotels & Other Accommodation.....	66
11.6.2	Subsistence .....	67
11.6.3	Overseas trips .....	69
11.7	Accounting fees .....	70
11.8	Software.....	70
11.9	Computer and office equipment .....	70
11.10	Working from home (use of home as office).....	71
11.10.1	Mortgage interest relief restriction .....	73
	How will this work in practice? .....	73
11.11	Subscriptions and publications .....	74
11.12	Subcontractors .....	74

11.13 Training costs.....	75
11.14 Clothing and uniform.....	75
11.15 Medical expenses.....	76
11.16 Charitable donations .....	76
11.17 Childcare vouchers .....	77
11.18 Tax-Free Childcare .....	78
11.18.1 Who is eligible?.....	78
11.18.2 How does it work?.....	78
11.18.3 The differences between tax-free childcare and childcare vouchers.....	79
11.18.4 Changing from tax-free childcare to childcare vouchers .....	79
11.18.5 Who is better off with tax-free childcare?.....	79
11.19 Pension costs.....	80
11.19.1 Personal contributions .....	80
11.19.2 Employer contributions .....	80
11.19.3 Summary .....	81
11.20 Entertaining customers/suppliers.....	83
11.20.1 An overview .....	83
11.20.2 Should I bother recording client entertaining in my accounts .....	84
11.20.3 VAT.....	84
11.20.4 Gifts.....	84
11.20.5 Room Hire .....	85
11.21 Entertaining employees .....	86
11.21.1 An overview .....	86
11.21.2 Who counts as an employee .....	86
11.21.3 Mixed events – employees and others.....	86
11.21.4 Christmas party .....	87
11.21.5 Gifts.....	87
12 Non-allowable business expenses.....	88
12.1 Non-staff entertaining.....	88
12.2 Working lunches .....	88
12.3 Personal clothing .....	89
12.4 Parking fines .....	89
12.5 HMRC fines and penalties.....	90
12.6 Gifts to customers .....	90
12.7 Depreciation/Capital allowances .....	91
13 Company Cars.....	92

13.1	Private vs business use.....	92
13.2	CO2 emissions on the car .....	93
13.3	How is the deemed cash benefit in kind calculated? .....	94
13.4	Leasing a car? .....	97
13.5	Paying for fuel .....	97
13.6	VAT on private fuel.....	98
13.7	What's the alternative to a company car?.....	98
14	Electric car charging costs .....	100
14.1	Electricity costs - charging point at workplace.....	100
14.2	Electricity costs - charging point at employee's home.....	100
14.2.1	Car charged at home - company provides electricity costs.....	100
14.2.2	Car charged at home - employee pays electricity costs .....	101
14.2.3	Car charged at home - no reimbursement of electricity costs .....	101
14.3	Conducting your business from home .....	101
14.4	What about vans?.....	102
14.5	VAT treatment of electric vehicle charging points.....	102
14.5.1	Liability relating to charging.....	102
14.5.2	VAT recovery for directors and employees .....	102
14.6	Tax treatment of electric vehicle charging points - installation costs .....	103
14.7	Tax treatment of electric vehicle charging points - employee usage.....	103
14.7.1	Other points .....	104
15	Company van .....	105
15.1	Is it a van?.....	105
15.2	Administration .....	105
15.3	VAT and corporation tax .....	105
15.4	Personal tax.....	106
16	Auto-enrolment.....	107
16.1	What is automatic enrolment? .....	107
16.2	Will it affect me? .....	109
16.3	When will it affect me?.....	110
16.4	What do I need to do? .....	110
16.5	How much will it cost me? .....	111
16.6	Administration - before your staging date .....	112
16.7	Administration - after your staging date.....	112
16.8	Self-employed and directors of companies.....	113
17	Directors' Loans.....	114
17.1	The Rules .....	114

17.2	Joint loan accounts.....	115
17.3	The cost to you.....	116
17.3.1	Averaging method .....	117
17.3.2	Precise method .....	118
17.4	The cost to the company .....	119
17.5	Beware the ‘bed and breakfast’ rules.....	120
17.6	Writing off your loan .....	121
17.7	Summary.....	122
18	VAT .....	123
18.1	When to register for VAT.....	125
18.2	Reclaiming VAT on expenses incurred before registration .....	125
18.2.1	Pre-registration VAT on goods: .....	125
18.2.2	Pre-registration VAT on services:.....	126
18.3	VAT administration .....	126
18.3.1	To register for VAT.....	126
18.3.2	Who should you issue a VAT invoice to .....	127
18.3.3	What to include on a VAT invoice.....	128
18.3.4	Time of supply .....	130
18.3.5	Records to keep for VAT .....	131
18.3.6	Filing your VAT return online .....	132
18.3.7	Filing deadlines .....	132
18.3.8	Payment deadlines.....	133
	Direct debit.....	133
	Other payment methods .....	133
18.4	VAT Penalty System .....	134
18.4.1	Penalties for late submission.....	134
18.4.2	Penalties for Late Payment.....	135
18.5	Charging VAT to Charities.....	136
18.6	VAT MOSS .....	138
18.6.1	Definition of VAT MOSS .....	138
18.6.2	The UK leaving the EU.....	139
18.6.3	Registering for VAT MOSS in an EU member state .....	139
18.6.4	VAT registration in an EU member state.....	139
18.7	Making VAT digital .....	140
18.7.1	What are the new measures? .....	140
18.7.2	Digital records .....	140

18.7.3	What is Functional compatible software? .....	141
18.7.4	Who has to join Making VAT Digital?.....	141
18.7.5	Who is exempt from Making VAT Digital? .....	142
18.8	VAT schemes.....	143
18.8.1	Cash accounting .....	143
	Overview.....	143
	Eligibility .....	143
	How to join and leave .....	144
	Return and payment deadlines .....	144
	Advantages.....	144
18.8.2	Annual accounting.....	145
	Overview.....	145
	Eligibility .....	145
	How to join and leave .....	146
	Return and Payment deadlines.....	147
	How much to pay .....	147
	Advantages.....	147
18.8.3	Flat rate – the new rules .....	148
	Overview.....	148
	What are the changes? .....	148
	Who will be regarded as a limited cost trader?.....	148
	What are goods as far as the new rules are concerned? .....	149
	An example .....	150
	Who are these measures aimed at? .....	150
	What action do you need to take? .....	151
	Eligibility .....	151
	How to join and leave .....	152
	Advantages.....	152
18.9	EU Overseas VAT .....	153
18.9.1	VAT and service businesses.....	153
18.9.2	VAT and exporting goods to the EU.....	154
18.9.3	Zero-rating of goods.....	155
18.9.4	VAT position for Northern Ireland post Brexit.....	155
18.10	Issues to be aware of.....	156
18.10.1	VAT on cars .....	156

18.10.2	VAT on fuel .....	157
18.10.3	VAT on parking .....	157
18.10.4	VAT on staff business expenses .....	157
18.10.5	VAT on business entertaining.....	158
18.10.6	VAT on staff entertaining .....	158
19	Tax Data.....	159
19.1	Personal Income Tax Rates .....	159
19.2	Corporation tax .....	159
19.3	National Insurance .....	160
19.4	Student loan deductions.....	160