

# 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 2023/24 .....	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 .....	9
3 Running a limited company .....	11
3.1 Directors' responsibilities .....	11
3.2 Executive directors and non-executive directors .....	11
3.2.1 Executive directors.....	12
3.2.2 Non-executive directors .....	12
3.2.3 Potential IR35 issues.....	13

3.3	Shareholders agreement.....	14
3.4	Records .....	15
3.5	Signs, stationery and promotional material .....	15
3.5.1	Signs.....	15
3.5.2	Stationery and promotional material.....	15
4	Taking money out of a limited company .....	16
4.1	Director's salaries .....	16
4.1.1	Optimum salary.....	16
4.1.2	Administration .....	17
4.2	Dividends.....	17
4.2.1	Overview .....	18
4.2.2	The old rules for dividend taxation pre 2016/17.....	19
4.2.3	The new rules for dividend taxation post 2015/16.....	20
4.2.4	Dividend paperwork.....	21
4.3	Optimum salary vs dividends .....	22
4.3.1	Strategy 1: Take a salary below the NI Primary Threshold.....	24
4.3.2	Strategy 2: Claim the Employment Allowance .....	25
4.3.3	Other dividend levels .....	26
4.3.4	Leaving money in your business.....	26
4.3.5	Other considerations .....	27
	Student loan repayments .....	27
	Child benefit.....	27
	Earnings above £100,000.....	28
	Multiple shareholders.....	28
4.4	Directors' loans.....	28
4.5	Directors' credit balances .....	30
4.6	Other ways to get money out of your company.....	31
5	Income Splitting.....	32
5.1	The strategy .....	32
5.2	Making your spouse a shareholder .....	32
5.2.1	The Risk .....	32
5.2.2	How many shares .....	34
5.2.3	How to issue shares to your spouse .....	34
	On incorporation .....	34
	After incorporation.....	34
5.2.4	Paying a dividend.....	35

5.2.5	Making your partner a shareholder .....	35
5.3	Paying your spouse a salary.....	35
6	Alphabet shares.....	36
7	Dividend waivers .....	37
8	Corporation Tax .....	38
8.1	How corporation tax is calculated .....	38
8.2	Corporation tax rates.....	38
8.2.1	What is the marginal rate of corporation tax?.....	38
8.2.2	Associated companies.....	39
8.2.3	Mitigating the effects of the corporation tax increase .....	40
	Changing your company's year end .....	40
	Impact of changing your company's year end .....	40
	Increase or make company pension contributions.....	41
	Consider alternative methods of profit extraction from your company.....	41
8.3	Registration.....	41
8.4	Filing Dates of Returns .....	41
8.5	Penalties for late filing.....	42
8.6	Payment Dates for Corporation Tax .....	42
8.7	CT61 Returns.....	42
8.8	Associated companies.....	43
8.8.1	What is regarded as an associated company? .....	43
8.8.2	How is control defined? .....	43
8.8.3	What is regarded as commercial interdependence? .....	44
	Financial interdependence .....	44
	Economic interdependence .....	44
	Organisational interdependence.....	45
8.8.4	When to include as associated companies .....	45
	Holding companies .....	45
	Investment companies.....	45
8.8.5	What is the tax impact of having associated companies? .....	46
8.9	Time limits for correcting and enquiring into tax returns.....	47
9	Accounting profit .....	48
9.1	Prepayments.....	48
9.2	Accruals .....	48
9.3	Depreciation.....	48
9.4	Deferred tax .....	49

9.4.1	An overview.....	49
9.4.2	An example .....	49
9.5	Bad debts .....	51
10	Allowable business expenses.....	52
10.1	‘Out of pocket’ expenses .....	52
10.2	Benefits in kind.....	53
10.2.1	What are they? .....	53
10.2.2	An example .....	53
10.2.3	Tax free benefits .....	55
10.2.4	‘Trivial’ benefit allowance.....	55
10.3	Mobile phone .....	56
10.4	Broadband/internet .....	56
10.5	Travel costs.....	57
10.5.1	What is business travel? .....	57
	HMRC’s definition of a ‘business journey’ is one which either involves travel:.....	57
	Temporary workplace .....	57
	Temporary workplace – further rules .....	58
	What happens if there is no permanent workplace? .....	59
	Travelling appointments .....	59
	Home based employees.....	60
10.5.2	Business mileage.....	60
10.5.3	VAT on fuel element of AMAP.....	62
10.5.4	Bicycles.....	63
	Claiming mileage .....	63
	Company bicycle .....	63
10.5.5	Other Travel Costs .....	63
10.6	Hotel and subsistence .....	64
10.6.1	Hotels & Other Accommodation .....	64
10.6.2	Subsistence.....	65
10.6.3	Overseas trips.....	67
10.7	Accounting fees .....	68
10.8	Software.....	68
10.9	Computer and office equipment .....	68
10.10	Working from home (use of home as office).....	69
10.10.1	Mortgage interest relief restriction.....	71
	How will this work in practice? .....	71

10.11 Subscriptions and publications .....	72
10.12 Subcontractors .....	72
10.13 Training costs.....	73
10.14 Clothing and uniform.....	73
10.15 Medical expenses.....	74
10.16 Charitable donations .....	74
10.17 Childcare vouchers .....	75
10.18 Tax-Free Childcare .....	76
10.18.1 Who is eligible?.....	76
10.18.2 How does it work?.....	76
10.18.3 The differences between tax-free childcare and childcare vouchers.....	77
10.18.4 Changing from tax-free childcare to childcare vouchers .....	77
10.18.5 Who is better off with tax-free childcare?.....	77
10.19 Pension costs.....	78
10.19.1 Personal contributions .....	78
10.19.2 Employer contributions .....	78
10.19.3 Summary .....	79
10.20 Entertaining customers/suppliers.....	81
10.20.1 An overview .....	81
10.20.2 Should I bother recording client entertaining in my accounts .....	82
10.20.3 VAT.....	82
10.20.4 Gifts.....	82
10.20.5 Room Hire.....	83
10.21 Entertaining employees .....	84
10.21.1 An overview .....	84
10.21.2 Who counts as an employee .....	84
10.21.3 Mixed events – employees and others.....	84
10.21.4 Christmas party .....	85
10.21.5 Gifts.....	85
11 Non-allowable business expenses.....	86
11.1 Non-staff entertaining .....	86
11.2 Working lunches .....	86
11.3 Personal clothing .....	87
11.4 Parking fines .....	87
11.5 HMRC fines and penalties.....	88
11.6 Gifts to customers.....	88

11.7 Depreciation/Capital allowances .....	89
12 Company Cars.....	90
12.1 Private vs business use.....	90
12.2 CO2 emissions on the car .....	91
12.3 How is the deemed cash benefit in kind calculated? .....	92
12.4 Leasing a car? .....	95
12.5 Paying for fuel .....	95
12.6 VAT on private fuel.....	96
12.7 What's the alternative to a company car? .....	97
13 Electric car charging costs .....	98
13.1 Electricity costs - charging point at workplace.....	98
13.2 Electricity costs - charging point at employee's home.....	98
13.2.1 Car charged at home - company provides electricity costs.....	98
13.2.2 Car charged at home - employee pays electricity costs .....	99
13.2.3 Car charged at home - no reimbursement of electricity costs.....	99
13.3 Conducting your business from home .....	99
13.4 What about vans?.....	100
13.5 VAT treatment of electric vehicle charging points.....	100
13.5.1 Liability relating to charging. ....	100
13.5.2 VAT recovery for directors and employees .....	100
13.6 Tax treatment of electric vehicle charging points - installation costs .....	101
13.7 Tax treatment of electric vehicle charging points - employee usage.....	101
13.7.1 Other points.....	102
14 Company van .....	103
14.1 Is it a van?.....	103
14.2 Administration .....	103
14.3 VAT and corporation tax .....	103
14.4 Personal tax.....	104
15 Auto-enrolment.....	105
15.1 What is automatic enrolment? .....	105
15.2 Will it affect me? .....	107
15.3 When will it affect me?.....	108
15.4 What do I need to do?.....	108
15.5 How much will it cost me? .....	109
15.6 Administration - before your staging date .....	110
15.7 Administration - after your staging date.....	110
15.8 Self-employed and directors of companies.....	111

16	Directors' Loans.....	112
16.1	The Rules .....	112
16.2	Joint loan accounts.....	113
16.3	The cost to you.....	114
16.3.1	Averaging method.....	115
16.3.2	Precise method .....	116
16.4	The cost to the company .....	117
16.5	Beware the 'bed and breakfast' rules.....	118
16.6	Writing off your loan .....	119
16.7	Summary.....	120
17	VAT .....	121
17.1	When to register for VAT .....	123
17.2	Reclaiming VAT on expenses incurred before registration .....	123
17.2.1	Pre-registration VAT on goods:.....	123
17.2.2	Pre-registration VAT on services: .....	124
17.3	VAT administration .....	124
17.3.1	To register for VAT .....	124
17.3.2	Who should you issue a VAT invoice to .....	125
17.3.3	What to include on a VAT invoice .....	126
17.3.4	Time of supply .....	128
17.3.5	Records to keep for VAT .....	129
17.3.6	Filing your VAT return online.....	130
17.3.7	Filing deadlines .....	130
17.3.8	Payment deadlines .....	131
	Direct debit.....	131
	Other payment methods .....	131
17.4	VAT Penalty System .....	132
17.4.1	Penalties for late submission.....	132
17.4.2	Penalties for Late Payment .....	133
17.5	Charging VAT to Charities.....	134
17.6	VAT MOSS .....	136
17.6.1	Definition of VAT MOSS.....	136
17.6.2	The UK leaving the EU.....	137
17.6.3	Registering for VAT MOSS in an EU member state.....	137
17.6.4	VAT registration in an EU member state .....	137
17.7	Making VAT digital .....	138

17.7.1	What are the new measures? .....	138
17.7.2	Digital records.....	138
17.7.3	What is Functional compatible software?.....	139
17.7.4	Who has to join Making VAT Digital?.....	139
17.7.5	Who is exempt from Making VAT Digital? .....	140
17.8	VAT schemes.....	141
17.8.1	Cash accounting .....	141
	Overview.....	141
	Eligibility .....	141
	How to join and leave .....	142
	Return and payment deadlines .....	142
	Advantages.....	142
17.8.2	Annual accounting .....	143
	Overview.....	143
	Eligibility .....	143
	How to join and leave .....	144
	Return and Payment deadlines.....	145
	How much to pay .....	145
	Advantages.....	145
17.8.3	Flat rate – the new rules .....	146
	Overview.....	146
	What are the changes? .....	146
	Who will be regarded as a limited cost trader? .....	146
	What are goods as far as the new rules are concerned? .....	147
	An example .....	148
	Who are these measures aimed at? .....	148
	What action do you need to take? .....	149
	Eligibility .....	149
	How to join and leave .....	150
	Advantages.....	150
17.9	EU Overseas VAT .....	151
17.9.1	VAT and service businesses .....	151
17.9.2	VAT and exporting goods to the EU .....	152
17.9.3	Zero-rating of goods .....	153
17.9.4	VAT position for Northern Ireland post Brexit .....	153

17.10 Issues to be aware of.....	154
17.10.1    VAT on cars .....	154
17.10.2    VAT on fuel .....	155
17.10.3    VAT on parking .....	155
17.10.4    VAT on staff business expenses .....	155
17.10.5    VAT on business entertaining.....	156
17.10.6    VAT on staff entertaining .....	156
18    Becoming an Employer.....	157
18.1    Registering as an employer.....	157
18.2    Taking on a new employee .....	158
18.2.1    Should they be paid through PAYE? .....	158
18.2.2    Information you need.....	159
18.2.3    Using the right tax code .....	159
Numbers in a tax code.....	160
Letters in a tax code .....	160
K tax codes.....	161
BR and NT .....	161
Week 1/Month 1 tax codes .....	161
Changes to tax codes.....	162
18.3    Real Time Information .....	163
18.3.1    Reporting.....	163
18.3.2    Penalties for late submission.....	164
18.4    Paying any NIC/PAYE due .....	166
18.4.1    Paying online .....	167
18.5    End of year requirements.....	168
18.6    Company cars .....	168
18.7    Payrolling of benefits.....	170
18.7.1    Benefits that can't be included in the payroll .....	170
18.7.2    Reporting requirements .....	170
18.7.3    Applying to HMRC for authorisation.....	171
17.8    Auto-enrolment.....	172
17.9    Payroll software .....	172
19    SEIS .....	173
19.1    What is the SEIS? .....	173
19.2    What is a SEIS qualifying company? .....	174
19.3    What are SEIS qualifying shares? .....	174

19.3.1 Who is a qualifying investor? .....	175
19.3.2 The tax incentives available.....	175
Income tax reliefs.....	175
Capital Gains Tax Reliefs .....	176
19.4 SEIS - Advance assurance from HMRC .....	177
20 Giving shares to directors and employees .....	178
20.1 What are employment related securities? .....	178
20.2 How is the tax charge calculated? .....	179
20.3 Shares with varying rights or restrictions .....	180
21 Tax relief on R&D expenditure .....	181
21.1 What is an SME? .....	181
21.2 What is defined as R&D expenditure? .....	181
21.3 What expenditure qualifies as R&D? .....	182
21.4 How does the relief operate? .....	183
21.5 Tax Relief on R&D expenditure recent changes .....	183
21.5.1 PAYE cap.....	183
21.5.2 Cloud computing.....	184
21.5.3 R&D activities overseas.....	184
21.5.4 Anti abuse action by HMRC.....	184
21.6 Obtaining an advance assurance from HMRC .....	185
22 Tax Data.....	186
22.1 Personal Income Tax Rates .....	186
22.2 Corporation tax .....	186
22.3 National Insurance .....	187
22.4 Student loan deductions .....	187