



3 Tax Tips When Setting Up YOUR BUSINESS

In this short article we highlight three tax tips you should consider when setting up and running your business.

TAX TIP 1 CHOOSE THE RIGHT BUSINESS STRUCTURE

Often a business is set up with little thought being given as to which form of vehicle should be used in order to carry on your business.

Usually, an individual will set up as a sole trader and, where two or more individuals are setting up the business, this will be carried on through a partnership. However, a private limited company may be the better vehicle and in some industries, particularly IT, TV and health care, it is standard practice for a company to be used by consultants, because otherwise, potential end clients and suppliers will refuse to deal with you.

There are various tax implications to consider in carrying on your business through the different forms and, clearly, you should be operating with the most tax efficient vehicle, whilst at the same time thinking about the costs, practical considerations and meeting your commercial objectives.

Depending upon the amount of profits gen-

erated, how much will be reinvested into the business versus how much you want to extract from the business, it will generally be more tax efficient operating through a limited company compared with trading on your own account as a sole trader or via a partnership.

However, a sole trader/partnership can be the better vehicle when starting out, because it's likely that the biggest costs will be incurred at this stage and any trading losses may be offset against your other income of the same tax year meaning that you can reduce your overall tax payable. For example, you may have been employed during that tax year, left your job and then incurred a taxable loss for the first trading period of your business.

Overall, it is always worth keeping an eye on your trading vehicle and, particularly, if you have been trading as a sole trader for a while, it may now be beneficial incorporating your business and running this through a limited company.



TAX TIP 2 KEEP ALL RECEIPTS AND RECORDS OF EXPENSES

Business owners have so much to think about when running their own business, wearing so many different hats and trying to juggle everything that has to be done, so it's hardly surprising that the boring admin task of keeping all receipts and expenses is usually not high on their to-do list.

Nevertheless this is such an important tax requirement and setting aside some time on a regular basis so you can track, record and file (either in hard or soft copies and ideally both) will save you the daunting task of having to do it when the tax season rolls around and there is so much else going on that needs your attention.

We have seen too many examples of businesses falling victim to this and, following an audit by HM Revenue & Customs (which can, of course, happen a few years after the relevant accounting period has ended), business owners have had to commit a serious amount of internal resources and time, suffered so much stress and worry and seen tax claims struck out because of a lack of supporting documentation. If you can't do this, then simply outsource this task and get someone in once a month.

Remember, you can't deduct what you can't document!

TAX TIP 3 ENGAGE A PROFESSIONAL TAX ADVISER

I have seen it so many times where businesses try to go it alone or go cheap (such as buying precedent templates online) and it usually comes back to haunt them. The terrible truth is that many small business owners focus on cost and not value. Remember, you are only as good as your weakest link! How good is your current accountant or tax adviser?

You should always obtain good, solid tax advice which ought to save you thousands (if not more) in the long run and massively increase your wealth and the success of your business.

Indeed, you should seek professional tax advice before starting up (so you begin trading with the right business structure) and ensure your tax advisers take a proactive approach so you can run your business (and extract your profits) on the most tax efficient basis.



Some of the information given is based on UK Law but should not be construed as legal advice.

Simon Newsham is a highly experienced tax partner at New Quadrant Partners Ltd, based in London, advising on the needs of wealthy UK and international families, and individuals.