



SMALL BUSINESS TAX SAVING TACTICS



Taxcafe.co.uk Tax Guides

**Small Business
Tax Saving Tactics**

**Tax Planning for
Sole Traders & Partnerships**

**By Carl Bayley BSc FCA
and
Nick Braun PhD**

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About the Authors & Taxcafe

Carl Bayley began his career as a chartered accountant over 40 years ago and is now one of the country's most respected tax experts. He was Chairman of the Tax Faculty at the Institute of Chartered Accountants in England and Wales (ICAEW) from 2015 to 2018 and served as a member of the institute's governing council between 2003 and 2023.

He has written almost 20 plain-English tax planning guides and has contributed to newspapers including *The Times* and *The Telegraph*, as well as TV and radio programmes such as BBC Radio 2's Jeremy Vine Show.

Carl enjoys his role as a tax author: "The most satisfying part is the chance to give everybody a high standard of information at a very affordable price." As he often says: "My job is to translate tax into English."

Nick Braun founded Taxcafe.co.uk in 1999, along with his partner, Aileen Smith. As the driving force behind the company, their aim is to provide affordable plain-English tax information for private individuals and investors, business owners, accountants and other advisers.

Since then Taxcafe has become one of the best-known tax publishers in the UK and has won several business awards.

Nick has been involved in the tax publishing world since 1989 as a writer, editor and publisher. He holds a doctorate in economics from the University of Glasgow, where he was awarded the prestigious William Glen Scholarship and later became a Research Fellow. Prior to that, he graduated with distinction from the University of South Africa, the country's oldest university, earning the highest results in economics in the university's history.

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Chapter 1

Introduction

The main purpose of this guide is to help self-employed business owners (sole traders and partnerships) pay less Income Tax and National Insurance on their profits.

Most of the chapters will show you how to claim more tax deductible expenses or bigger tax deductible expenses.

Expenses are vital in business tax planning because, in simple terms, taxable profit is calculated as follows:

$$\text{Taxable Profit} = \text{Income} \textit{ less} \textit{ Tax-Deductible Expenses}$$

So the bigger your tax deductible expenses, the lower your taxable profit and the smaller your tax bill.

Lesser-known and Big Tax Deductions

Most business expenses are tax deductible, providing they are incurred 'wholly and exclusively' for business purposes.

You probably don't need us to tell you that stationery purchased for a business is a tax deductible expense, as is a salary paid to an employee.

The focus of this guide is not the obvious expenses. Our aim is to help you:

Claim tax deductions you didn't know about
and
Maximise big, important tax deductions

Lesser-known tax deductions may include the cost of travelling abroad on business or entertaining staff. They may also include paying wages to your children or claiming tax relief on your home's mortgage interest.

Maximising big important tax deductions may include paying your employees in more tax-efficient ways, increasing the tax relief

on your motoring expenses, and maximising your property tax deductions.

Many of the tax planning ideas contained in this guide are not widely known or covered in other tax publications.

We are quite confident that even those with fairly substantial tax knowledge will uncover many useful nuggets that will help them save tax.

Capital Gains Tax & Inheritance Tax

The main focus of the guide is helping business owners pay less Income Tax and National Insurance. These are the taxes that have to be paid year in, year out and are levied at potentially extortionate rates.

Some of the later chapters of the guide also contain important information on reducing other taxes, including VAT, Capital Gains Tax and Inheritance Tax.

Tax Red Tape and Jargon

The focus of this guide is tax planning, i.e. helping you pay less tax. We do not spend any time explaining how to complete a tax - return, compile accounts or do basic bookkeeping. While this is important, there are plenty of accountants out there who will help you with your tax compliance.

We feel business owners are far better served by a guide that focuses solely on helping them pay less tax.

We also feel it is important to avoid tax jargon as much as possible, although we tend to assume everyone knows who HMRC are and what VAT means. Another abbreviation we will sometimes use is CGT, for Capital Gains Tax, but, apart from that, we will try to avoid any potentially confusing abbreviations.

Companies

This tax planning guide is aimed at self-employed business owners, namely sole traders, and partnerships. It is not for company owners. Many of the tax rules that apply to sole traders and partnerships apply differently to company owners.

Taxcafe has a range of other guides aimed at company owners (go to www.taxcafe.co.uk for details).

Limited Liability Partnerships

Limited Liability Partnerships (or LLPs) **are** covered in this guide. In most cases the rules are the same as for any other partnership, but there are a few quirks to be aware of. Where the rules for LLPs differ, we will explain these where appropriate, but there are other legal and accounting implications of using an LLP which are not within the scope of this guide, so we would recommend taking professional advice before using this type of business structure.

Scottish and Welsh Taxpayers

The Scottish Parliament has the power to set its own Income Tax rates and thresholds, although it cannot change the personal allowance or the tax rates on savings income or dividends.

In Chapter 2 we explain the key differences and their impact on self-employed business owners in Scotland. Despite these differences, the vast majority of the information contained in this guide remains equally relevant to Scottish taxpayers. However, unless stated to the contrary, all examples, tables, calculations and illustrations are based on the assumption that the taxpayer concerned is not a Scottish taxpayer.

The Welsh Assembly also has powers to vary the Income Tax rates applying to Welsh taxpayers. These powers are more limited in scope than those applying in Scotland and the vast majority of the information contained in this guide will again remain equally relevant to Welsh taxpayers. See Chapter 2 for further details.

Summary of Contents

The following is a brief chapter by chapter summary of the tax planning information contained in this guide:

Part 1 – Working from Home

Chapter 3 explains how you can maximise your tax deduction for home office expenses, including home mortgage interest, council

tax, property repairs, and gas and electricity costs. This tax deduction can be claimed even if you only work from home some of the time.

Many part-time businesses are run from home and in Chapter 4 we take a look at the special tax rules that apply to this type of business, including the one that allows part-timers to offset business losses against their other taxable income, eg income from employment.

Part 2 – How Your Family Can Help You Save Tax

In Chapter 5 we look at how your spouse or partner can be employed in your business or made a partner and paid income that is either tax free or taxed less heavily than your own.

Chapter 6 explains how to save tax by employing your children (including minors) or making them partners in your business.

Part 3 – Employing People

When you take on employees you may have to pay employer's National Insurance. Chapter 7 explains how it's calculated and some of the reliefs.

Chapter 8 looks at some of the tax-free benefits that can be paid to employees. These are useful alternatives to cash salary.

Entertaining is not usually a tax deductible expense but certain staff entertainment costs are fully tax deductible. Chapter 9 explains how you can maximise your claim.

In Chapter 10 we explain "auto-enrolment" – the system of compulsory pensions.

Part 4 – Business Travel, Subsistence and Entertainment

Chapter 11 explains how you can claim a bigger tax deduction for your travel costs by making sure that more of your journeys are treated as business travel.

Chapter 12 explains how you can claim a bigger tax deduction for subsistence costs (including restaurant meals and alcohol) when you travel on business.

Entertainment costs are not tax deductible but, as we show in Chapter 13, it is possible to structure your spending so that these costs are partly tax deductible.

Chapter 14 looks at how you can claim a tax deduction for flights, hotels, meals and other costs when you travel abroad on business... even when you take some time out to relax!

Chapter 15 explains how you can claim the additional cost of travelling abroad with your spouse or partner.

Part 5 – Investing in Your Business: Capital Allowances

When you buy computers, motor vehicles and other equipment for your business you can claim capital allowances. In Chapter 16 we explain how they are calculated and in Chapter 17 how you can claim extra tax relief by timing your capital spending carefully. You can even claim a cashback from the taxman, as we reveal in Chapter 18.

Part 6 – Leasing vs Buying Business Assets

What saves you more tax: leasing assets or buying them using HP? In Chapters 19 and 20 we explain the tax treatment of each method and provide a definitive answer to this question.

Part 7 – Motoring Expenses

This part of the guide contains invaluable information for business owners who want to maximise tax relief on their motoring costs.

In Chapter 21, we explain the capital allowances that can be claimed when you buy motor vehicles, including the 100% tax deduction when you buy cars with zero CO₂ emissions. We also explain how self-employed business owners can claim big catch-up tax deductions when they sell their cars.

Chapter 22 looks at vehicle running costs and explains how much you can claim for fuel, insurance, maintenance etc.

Small business owners can either claim tax relief on their actual motoring costs or use HMRC's fixed mileage rates. In Chapter 23 we use some examples to show which method produces the biggest tax saving.

Chapters 24 and 25 are all about maximising the amount of VAT you can recover on your motoring costs. Chapter 24 lists all the purchases that qualify: vans, motorbikes, accessories, repairs, parking costs, number plates etc.

When it comes to reclaiming VAT on fuel you have two choices: reclaim VAT on your actual business mileage only or reclaim VAT on all your fuel and pay the Fuel Scale Charge. In Chapter 25 we reveal which method produces a bigger VAT refund.

If you drive a van you may be able to recover over half the cost in tax relief, including a VAT refund and a 100% capital allowance. In Chapter 26 we reveal which vehicles qualify for the full monty of tax reliefs.

In Chapter 27 we provide a definitive answer to a very important tax planning question: Should I lease or buy my car?

Part 8 – Maximising Tax Relief on Borrowings

Chapter 28 explains how you can claim a bigger tax deduction for interest on borrowed money and how to avoid various mistakes that will reduce your tax relief. In Chapter 29 we reveal how business owners can even make interest on a personal loan (eg a home mortgage) tax deductible.

Part 9 – Business Property

Chapter 30 will help you decide whether it is best to rent or buy premises for your business.

In Chapter 31 we explain the difference between property repairs and improvements. Repairs will generally save you more tax. We reveal how certain spending that may increase the value of your property can be treated as a repair for tax purposes.

When you buy a commercial property you can claim immediate tax relief for the value of all the central heating, wiring, lighting and other 'integral features'. Chapter 32 tells you everything you need to know about this generous tax deduction.

In Chapter 33 we explain how you can accelerate tax relief on loan arrangement fees.

Part 10 – E-Commerce

Most businesses have an internet presence these days. In Chapter 34 we explain the rules for claiming tax relief on the various costs, including website development costs and online advertising.

Dedicated internet businesses may even be able to take advantage of other tax saving opportunities, including moving to a lower tax jurisdiction. We provide a brief summary in Chapter 35.

Part 11 – Year-End Tax Planning & Pro-active Accounting

In Chapter 36, we list the things you can do before your business year-end to reduce your business's tax bill. Normally, this involves accelerating expenses and pushing income into the next year; sometimes it involves the opposite approach.

In Chapter 37, we look at the critical changes, currently taking place, to how business year-ends work for tax purposes. As a result of these changes, some business owners may benefit by changing their year-end for the 2022/23 tax year (most business owners have until 31st January 2024 to do this), while others will benefit more by keeping their current year-end and waiting to make a change later. There are opportunities to save thousands of pounds in tax by making the right choice... but also the danger of losing thousands of pounds by making the wrong one!

In Chapter 38, we then combine the planning opportunities we looked at in Chapter 36 with the new rules explained in Chapter 37 to see just how valuable year-end planning is going to be over the next couple of years.

Chapter 39 explains how businesses that sell goods can maximise their tax deduction for Cost of Sales. Chapter 40 explains how you can claim a bigger tax deduction for bad debts. In Chapter 41 we

explain what you must do to ensure your accountant does their job correctly.

Part 12 – VAT

Most business owners hate VAT. In Chapter 42 we explain the basics and in Chapters 43 and 44 we look at various special schemes that could save your business thousands of pounds in VAT every year.

Part 13 – Capital Gains Tax

Business owners who sell up are in a privileged position when it comes to Capital Gains Tax: they can pay just 10% tax. This is thanks to Business Asset Disposal Relief (previously called Entrepreneurs' Relief). In Chapter 45 we explain the rules.

In Chapter 46 we reveal how it may be possible to pay just 10% Capital Gains Tax when you sell an investment property by running a business out of it for a short period.

Part 14 – Inheritance Tax

Business owners are also in a fortunate position when it comes to Inheritance Tax: they can completely avoid the grave robbers thanks to business property relief. In Chapters 47 and 48 we explain how this relief works and what you must do to protect it.

Part 15 – Benefits & Drawbacks of Cash Accounting

It is important that readers are aware of the benefits and drawbacks of the voluntary cash basis for small businesses and its impact on all the tax planning strategies contained in this guide.

In Chapter 49 we look at the basic workings of the cash basis, its scope, and its many restrictions. Then, in Chapter 50, we look at the transitional rules applying when an existing business enters or leaves the cash basis: and see these provide tremendous scope for saving or deferring Income Tax.

In Chapter 51, we look at some of the other tax planning opportunities provided by the cash basis.

Unless expressly stated to the contrary, it is assumed throughout the rest of the guide that the cash basis is not being used.

Part 16 – Other Important Tax Issues

In the last part of this guide we look at some other important tax issues not covered elsewhere. Chapter 52 looks at some of the most useful tax planning techniques available to avoid the Child Benefit Charge on income between £50,000 and £60,000.

Finally, in Chapter 53 we take a look at the tax relief cap which places an annual limit on the total combined amount of Income Tax relief available under a number of different reliefs.

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