Business Basics:
Tax and VAT

Federation of
Small Businesses

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Federation of Small Businesses

Whether you're new to the world of working for yourself, or you just need a tax refresher, our tax experts have broken down what you need to know about taxes, VAT and record keeping, as well as key dates for your diary.

In this guide, you'll also find guidance on complying with new Making Tax Digital rules and how your FSB membership can help you.

What's inside?

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Whether you're new to the world of working for yourself, or you just want a tax refresher, you'll find everything you need to know about taxes, record keeping and accounts, as well as key dates for your diary.

Sole Trader

Register as self-employed

When?

You must notify HMRC of the potential chargeability to Tax & National Insurance Contributions by 5 October following the end of the tax year in which the business started. Once HMRC has been notified, they will issue a Unique Tax Reference (UTR).

You can register online

If the work you undertake falls within the Construction Industry Scheme (CIS) you will need to **register the business separately for CIS.** There is additional guidance if you're involved with subcontracting.

Self Assessment tax returns

When?

You must file your **Self-Assessment Tax Return** before:

- **31 October following the end of the tax year for a paper return**
- **31 January following the end of the tax year for an online return**

Failure to meet these deadlines can result in penalties from HMRC.

Keep your records

It's a requirement to maintain your business records so that you can accurately declare business income and expenditure within your Self-Assessment Tax Return – you can **find more guidance here.**

Deductions

Deductions can be made against your business income for **expenses that are related to your business,** for example if you buy a laptop solely for work purposes. You'll need to keep evidence such as receipts or invoices.

Capital Costs

Before claiming a deduction, you need to decide whether the expenditure is revenue or capital.

- Relief for revenue expenditure (expenses relating to the general day to day business activity) is given in **the year the expenditure is incurred.**
- Relief for capital expenditure (expenses relating to the business assets/premises) is either given by way of Capital/Annual Allowances where **relief may be spread over the useful life of the asset purchased,** or it's given against Capital Gains Tax upon the sale of the business premises.

Trading allowance

You can get up to £1,000 in **tax free allowances for trading.**
If your annual gross trading income is £1,000 or less from one or more trades, you may qualify for full relief. If that income is more than £1,000, you may qualify for partial relief.

Your accounts

You don't have to hire an accountant, but it's usually best to have an accountant prepare your annual business accounts if you're not confident in completing them yourself, as incorrect accounts can result in fines.
Submit Form 64-8 to HMRC to permit HMRC to deal with your accountant.

Profits, Tax and National Insurance

There are special rules in determining the level of profits that are assessed for Tax & National Insurance in the early years and final year of trade. It depends on your choice of accounting date and whether the earnings or **cash basis method** has been used.

Losses

If your business makes a loss, relief can be given in one of four ways. You can decide how best to use any loss relief and to claim the relief within your Self-Assessment Tax Return. **This guidance explains loss relief and its limits.**

National Insurance

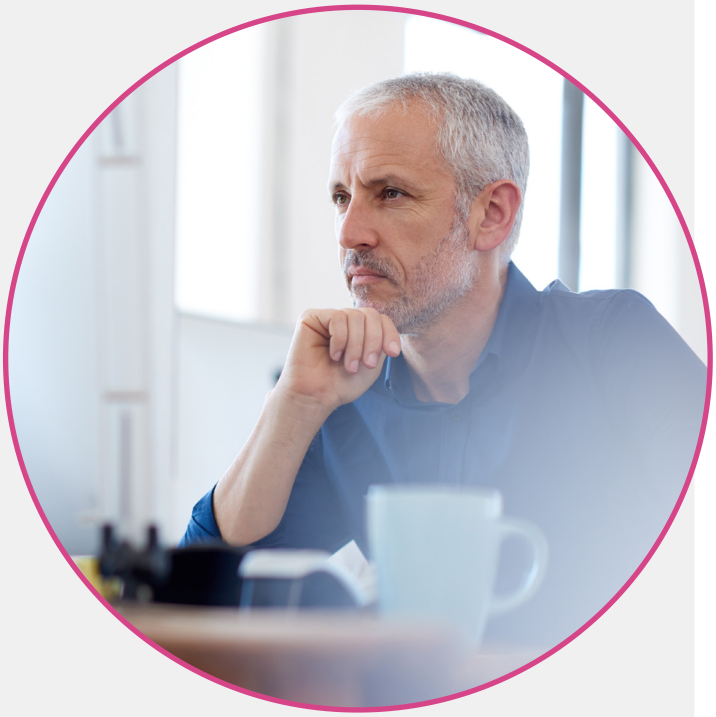
As a sole trader, you'll pay **Class 2 and 4 National Insurance contributions.**
The registration of your business for National Insurance purposes is incorporated within the Self-Assessment registration.

Self-Assessment liability

Make sure you know the dates to pay your **self-assessment tax and national insurance liability**, as **late payments will be charged statutory interest and penalties.**

Partnership

Registering with HMRC



When a new partner joins, you should notify HMRC by 5 October following the tax year in which they joined.

Limited Liability Partnerships (LLP) and Limited Partnerships (LP) are automatically registered for self-assessment by **Companies House**. General partnerships need to register with HMRC directly.

What paperwork will I need?

- Form SA400 – register a new partnership
- Form SA401 – register a new individual partner who's joining an existing partnership
- Form SA402 – register a new partner who is not an individual (e.g. a trust or a company) who's joining an existing partnership.
- Submit Form 64-8 to HMRC to permit HMRC to deal with your accountant.
- A Partnership Tax Return (SA800) must also be filed, with each partner's share of the profits or losses.

What will I have to pay?

Each individual partner is treated as a sole trader for National Insurance and Self-Assessment purposes. The same deadlines and penalties apply.

Once HMRC has been notified, they will issue a Unique Tax Reference (UTR) for the partnership and for each partner. Partners who have previously been self-employed will carry their UTR into the partnership.

Please refer to the sole trader section of this guide for more information.

Nominated partner

Your nominated partner is initially responsible for dealing with HMRC.

They will:

- Sign the Partnership Tax Return
- Receive and distribute correspondence relating to partnership as a whole
- Only be responsible for payment of income tax on partnership profits on their own share

Liability of partners

Joint liability or several liability

In England, Wales and Northern Ireland, partners who carry on business together are jointly liable for the debts incurred by the partnership while they are a partner. That is, they are equally responsible, under section 9 of the Partnership Act 1890, for payment of the whole of the debt (but see Partnerships in Self Assessment below).

They are not severally liable, which would mean that each partner was responsible for the whole debt.

Partnerships in Self Assessment - 1996-97 to date

Under the Self Assessment provisions, there is no partnership liability and partners are individually responsible for any tax due on their share of the partnerships profits. You cannot recover the debt from the other partners, whatever the reason for non-payment.

Limited Company

Registering at Companies House

To set up a private limited company, you 'incorporate' the company by **registering online at Companies House.** You will need a company name, an address for the company which will be its registered address, at least one shareholder and at least one director who is over 16 years of age.

Registering with HMRC

After registering with Companies House, information is usually sent automatically to HMRC, but you are still required to **register with HMRC** within three months of starting to do business. Starting to do business includes buying, selling, employing someone, advertising, renting a property etc. There may be a penalty for late registration.

The company is separate to its directors and as a director you may have a separate filing requirements. Please refer to the sole trader section of this guide for more information.

1. Register online, or use an agent (usually your accountant) or third party software
2. You'll receive a **10-digit Unique Taxpayer Reference (UTR)** for the company, together with form **CT41G (Corporation Tax – Information for New Companies)**.
3. **Use your UTR to register your company online.**

During the registration process, HMRC will provide you with a Government Gateway account which will enable you to sign up for corporation tax, PAYE and other online services and will also enable you to complete online returns.

Remember, HMRC and Companies House are two separate organisations with different filing requirements that you must observe as part of your company obligations.

Self Assessments

Getting organised for your tax return

Ready to start filling in the boxes? Gather all the paperwork and details that you will need ahead of time:

- Unique Taxpayer Reference (UTR) number (you need to register for one if you've not completed a Self Assessment before)
- National Insurance number
- Details of your all your income (you may also have rental income or have earned bank/building society interest or have received dividend payments)
- Records of relevant business expenses.
- If you're picking up freelance projects on the side and you're employed, you'll also need your P60

Five top tips for filing your Self Assessment

Make your tax return less stressful with our tax expert's top tips for filing your Self Assessment.

- **Start early.** You don't need to wait until 31 January. When the tax year has finished on 5 April, you can start making your preparations and getting organised. Plus, if you do need to get in touch with HMRC, you'll avoid the rush.
- **Don't miss the deadline.** Whether you're self-employed full-time or freelancing on the side, you'll need to fill out a tax return every year. If you don't meet the deadline, you may face a fine from HMRC. You're also more likely to make mistakes or miss out important information.
- **File online.** This makes it easier to upload all the information that HMRC needs from you. If you're busy, you don't need to do it all in one go – simply save your form and fill it in when you have time.
- **Track your income and expenses as you go.** Keep accurate records of income and what you've claimed as business expenses throughout the tax year so that you're ready to go, and make sure you declare everything.
- **Budget in advance.** Once you've submitted your return, you can manage any surprises with your tax bill by budgeting in advance for what you anticipate your tax bill will be and getting ahead if you need to make any payments on account. Set aside a portion of your income every month for paying tax and National Insurance contributions.

Making Tax Digital

Are you ready for Making Tax Digital? Get ahead of the curve and find out what you need to do to prepare your business.

What is Making Tax Digital?

Making Tax Digital (MTD) is an HMRC initiative designed to help businesses and individuals correctly calculate their tax through a system that is more efficient, effective and simpler to use.

When do I need to do this?

All VAT-registered businesses now need to report digital VAT records to HMRC through compatible software. This came into force in April 2022.

You need to follow the requirements for Making Tax Digital for Income Tax if you are self-employed or a landlord from:

- 6 April 2026 if you have an annual business or property income of more than £50,000
- April 2027 if you have an annual business or property income of more than £30,000

You can start preparing today for the new rules and streamline your process. There will be penalties for non-compliance, so it's important to act sooner rather than later so you don't risk any fines.

How to comply with MTD in three simple steps

1. Make a plan

If you have an accountant who looks after your bookkeeping, speak to them to understand what the change will mean. For example, you may need to set up a process for sharing digital records and information.

If you do your own accounts using spreadsheets, manual records or paper-based bookkeeping or if you're already keeping your accounts digitally, you must now do this using MTD compatible software to submit your information to the new HMRC MTD portal.

You'll then use this software to record your income and expenses day-to-day, so the sooner you start, the faster you will become familiar with it. You can start using MTD compatible software today to do your record keeping without joining the MTD pilot. You can connect to the MTD portal whenever you are ready.

2. Find compatible accounting software

The crucial change with Making Tax Digital is the switch from just spreadsheets to compatible software that links to HMRC's system. This will pull data from your digital records (including speadsheets) in order to submit your return to HMRC, meaning all you need to do is declare that the information is correct and confirm the submission.

You need to get compatible software in place before you register for the MTD service. It won't be provided by HMRC, so you'll need to upgrade existing software or source new software.

Simple solution for small businesses

The **FSB Making Tax Digital app** is recognised by HMRC as a solution for submitting an MTD return, with an exclusive discount for FSB members. Users can submit their business accounts directly from the app to the online MTD portal.

- **Create and record customer invoices and payments**
- **Keep track of your expenses**
- **Store photos of paper receipts**

Once connected, the app will retrieve your quarterly VAT submission dates, provide periodic updates and summarise data ready for submission to HMRC. You can continue to use spreadsheets, the FSB app will read the data from the spreadsheet and submit it to the HMRC MTD Portal. This is referred by HMRC as a 'bridging product'.

3. Register for Making Tax Digital

Now you have your software in place, you're ready to sign up for MTD. You'll need to register on the government website. You won't be enrolled automatically, so make sure you register in time for your first MTD return deadline.

To sign up, you'll need to have the following to hand:

- **Your business email address**
- **Government Gateway user ID and password** (if you don't have one, you can create one here)
- **VAT registration number**
- **Latest VAT return**

You can find further details about how to sign up for Making Tax Digital here.

VAT

VAT can seem daunting and complex, and it can be costly if you get it wrong. Our VAT experts from FSB Tax Investigation Protection are here to take you through the basics.

Do I need to register for VAT?

Value added tax (VAT) is a sales tax added to eligible goods and services sold in the UK. Businesses that turnover* more than £85,000 a year are likely to be required to register for VAT, charge it to their customers where necessary and file a VAT return every three months.

The standard rate of VAT in the UK is currently 20%. Some goods and services have a reduced rate of 5%, some are zero-rated (0% VAT) and some are exempt from, or outside the scope of, VAT. When registered, the rate of VAT you'll need to charge and account for to HMRC will depend on the type of goods and services you sell. You may also be able to claim VAT back on eligible purchases through your VAT return for that accounting period.

*Includes purchases of services from non-UK suppliers and 'deemed' sales but excludes exempt and outside the scope sales

How to register for VAT

As your business grows, you may reach the point where you need to register for VAT with HMRC once you exceed the threshold. This could be on the basis of either the last (rolling) 12 months' sales (historic-basis) or next 30 days' sales (forward-look-basis). Your accountant can help you with this. You can't register for VAT if you are not in business, or if you only sell VAT-exempt goods and services.

You must notify HMRC of your requirement to register within 30 days of the date you exceeded the VAT threshold otherwise you risk penalties. When you register online, you'll get a VAT online account which you need to submit your VAT return to HMRC, as well as a VAT number for your VAT returns. There are some circumstances where you may need to register by post on a VAT1 form.

To register, you'll need:

- ✔ Your turnover
- ✔ Details about your business activities
- ✔ Bank details
- ✔ Director / Proprietor details

Please refer to the **VAT guide** on the **FSB Legal Hub** for more information.

When you're VAT registered, you'll need to:

- ✔ Charge the right amount of VAT to your customers
- ✔ Pay any VAT due to HMRC
- ✔ Submit quarterly VAT returns
- ✔ Keep records digitally

You'll get a VAT registration certificate within 30 working days to your VAT online account. Your registration date is your 'effective date of registration', so you'll have to pay HMRC any VAT due from this date. This includes VAT for past sales where you were either late registering or went over the threshold on the look-forward-basis.

File your VAT return

Once you've registered, you'll need to fill in and submit quarterly (or monthly if you are a repayment trader and request this) VAT returns to HMRC to stay compliant and pay the correct amount of VAT.

There are a few steps in the process of submitting your return each quarter – we've broken it down into three simple steps. Your accountant can support you with this if you're unsure or, if you're an FSB member, you can call our team of VAT specialists for advice.

Don't forget!

All VAT-registered businesses must comply with new Making Tax Digital rules. Check out the Making Tax Digital section of this guide for more information about how to comply.

1. Gather your records and calculate your claim

To submit your return, you'll need some figures to hand, including:

- Your total sales
- Your total purchases
- Output VAT (the VAT on your sales)
- Input VAT (the VAT you can claim back on purchases)

You won't need to submit VAT invoices, but HMRC may ask to see these later down the line, so stay organised and have these ready just in case.

HMRC has detailed guidance on how to fill in each section of your return form

The new rules won't change your normal VAT return deadlines or the information you need to send. You can check when your next return is due on your online VAT account.

2. Paying your VAT bill

Payment return

Most businesses will usually end up with a VAT bill if you're selling more than you buy. You'll have a month and seven days to pay this. You can pay manually or through direct debit, but either way make sure you do this on time to avoid any penalties. For example, if you owe £1,000 in VAT on sales and can recover £300 in VAT on purchases, you'd owe HMRC £700.

Repayment return

Paid more VAT than you collected? HMRC will refund you after you submit your return, meaning you won't have a bill. For example, if you owe £1,000 in VAT on sales and can recover £1,100 in VAT on purchases, you'd get a £100 refund from HMRC.

If this is regularly the case, you may benefit from being on monthly VAT returns, so consider whether the cash-flow advantage will outweigh any extra admin and ask HMRC to move to monthly returns.

Taxing questions?

Check out our in-depth guides to VAT basics, the registration process and submitting your VAT return.

Support from FSB

FSB Making Tax Digital App

An HMRC recognised app designed to make MTD compliance simple.

Learn more

FSB Tax Investigation Protection

Support and insurance for certain business-related HMRC enquires

Learn more

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