

# The 7 Most Important Tax Tips Every Business Needs to Consider

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**“It’s not what you make, it’s what you keep that matters”**

Every business wants to maximise its profit. Whilst the business owner is able to judge the best selling price for their product or service and is able to negotiate the lowest costs for expenditure the biggest cost that sometimes feels outside of their control is taxation.

**Here are the 7 most important tax tips every business needs to consider:**

- 1. Operating Through a Limited Company** – It is generally more tax efficient to operate through a limited company. If you are a director/shareholder taking most of your income as salary consider reducing the salary and taking dividends instead. The tax and national insurance savings can be considerable. If you are a sole trader or partnership you may save tax by converting to a limited company.
- 2. Retain the Profits and Sell the Business** – You can save even more tax if you don’t need to take all of the profits out each year. Let them build up in the company for several years and then sell the business. The sale will be taxed under Capital Gains Tax and so long as the total gain is less than £10 million in your lifetime you could be taxed at just 10% by claiming Entrepreneurs Relief.
- 3. Capital Allowances** – Significant relief can be gained by claiming capital allowances on all applicable expenditure. Each year you are entitled to an Annual Investment Allowance that enables you to set off 100% of the capital expenditure against the profit for the year. There are additional 100% first year allowances for low emission cars and energy efficient equipment. If you are undertaking the building of new business premises or a major renovation make sure you review the expenditure to ensure that you claim capital allowances on all qualifying elements of expenditure.
- 4. Research & Development (R&D)** – It is a relief that is only available for companies and can either reduce a company’s tax bill or in certain circumstances provide a cash repayment. A company can deduct 225% in respect of their qualifying expenditure (i.e. the R&D expenditure actually incurred plus an amount equal to 125% of the expenditure). The expenditure relates to an activity that a company undertakes to achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of scientific uncertainty. It must also relate to your trade (either an existing one or one that you intend to start up based on the results of the research and development).

5. **Claiming all Allowable Expenses** – HMRC have complex rules about the allowable expenditure that can be set against the income of a business. The general rule that can be applied is that expenditure can be counted as allowable expenses if it was required “wholly and exclusively” for the purpose of the business. If any expenditure relates to something that has a dual purpose (a business and a personal reason), then this expenditure will generally not be allowable. Ordinary clothing (a business suit) is a typical example because it can be worn on non-business occasions. This is in contrast to protective clothing and uniforms that only have a business use.

If you work from home you can claim a proportion of your home expenses. Call us to discuss the potential claim you can make.

6. **VAT (Value Added Tax)** – If your turnover is over £81,000 (2014/15) you must register for VAT although it may be beneficial for you to register if your turnover is lower than this. An additional benefit is the VAT Flat Rate Scheme, which is a scheme that simplifies the operation of VAT and in most cases will save you money. Typically the annual savings are between £1,500 and £2,500. It is important that you get this right as there are various penalties if you do not.

7. **Speak to a Qualified Accountant** – To help you reduce your tax bill you should always speak to a qualified accountant. They will be able to consider your individual circumstances, such as your investments, your employment and any other relevant factors.

**Hugh Davies & Co will be pleased to give you further advice on any of the information contained here.**

**Please phone 01722 336647 to make an appointment or email:**

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