

2024-2025



The Essential Guide

# Starting Your Own Business

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Starting your own business feels great, you're in charge of your own destiny, but it can also be a little overwhelming. The responsibility for making every decision falls on your shoulders and that can be a daunting prospect.

As a client of GRC Accountants, we are here to advise and guide you as you navigate your way through every step from your company formation to tax planning, managing your bookkeeping and completing your VAT returns.

Our dedicated team are here to provide professional, friendly advice ensuring your business succeeds and thrives.

We wish you every success

*Gareth Cooper*

## Section 1

### Your Limited Company

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# Your Limited Company

A limited company is a separate legal entity that you can form to run your business – even if you're a one-person business. As a director, you're responsible for any legal and financial decisions the company makes. The company's assets and liabilities are completely separate from your own personal finances.

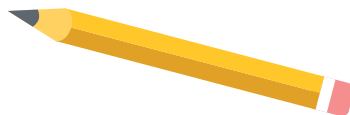
You will be a director and a shareholder of the business.

You can be paid a salary and/or dividends from the company's available profits. The company must make various annual returns and file annual accounts with statutory bodies such as Companies House and HMRC. It is your responsibility as a Director of the company to ensure this happens.

## 1. Bank account

One of your first tasks after you have formed your company is to set up a business bank account.

There are a number of banks who will be happy to work with you and provide business banking services, however we are happy to recommend a banking partner that we feel will best suit your business needs.



## 2. Registering for taxes

There are 3 main taxes which you must ensure your company is registered for, they are: **PAYE, VAT and Corporation Tax.**

It is also essential that all Directors or Shareholders (whose dividend income stands to exceed £500) register for self-assessment.

You should register your business for PAYE and VAT online via HMRC's website once your business is incorporated. HMRC will send out a reference number which you will need to retain to complete the registration process for Corporation Tax.

You could already be registered for self-assessment but if not, you will also need to complete an SA1 form which can be obtained from HMRC, as a client of GRC Accountants we take care of this on your behalf.





### 3. Appoint an Accountant

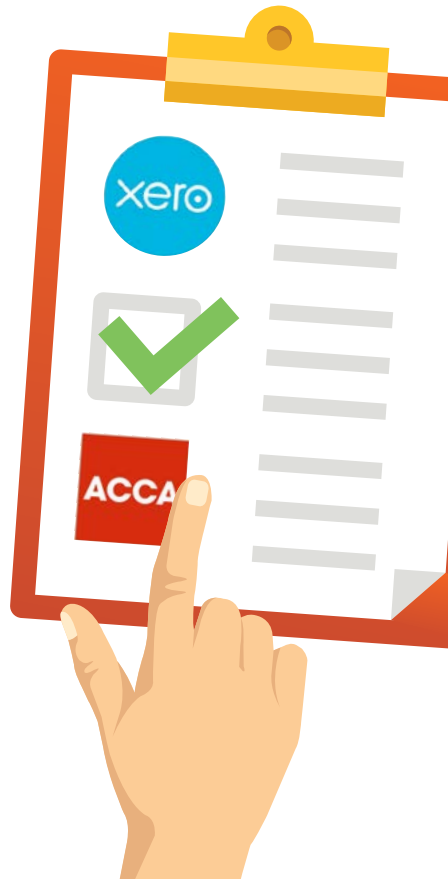
It is essential to select your Accountant in the early stages of your business set up, the advice and experience we bring will prove invaluable, particularly when it comes to ensuring you comply with current legislation and tax laws. It is also worth checking your accountant is registered with the ACCA or similar governing body to ensure that they are properly qualified.

### 4. Think about Insurance

While not necessarily a legal requirement for your business, it is probably worthwhile exploring the different insurance options available as, despite involving an initial outlay, some investment here could potentially save you considerable cash later.

Professional Indemnity, Public Liability and Employers' Liability insurance are the options you'll most likely need.

There are a number of Insurance brokers who will be happy to work with you and provide professional services, however we are happy to recommend an insurance partner that we feel will best suit your business needs.



# Next Steps...

**Your company has now:**

- Registered with Companies House
- Registered with HMRC
- Opened a Business Bank Account
- Appointed an Accountant



Once you have completed these steps, you are ready to begin trading. In this section we will cover the basic processes you need to implement to ensure your business accounts meet all regulations and you are able to claim expenses wherever possible.

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## 1. Invoicing

In order to receive payment for the goods/services you provide to your clients, you will need to issue your client with an invoice. Every invoice must contain the following details:

- Company Name, Address and Registration Number
- VAT Number
- Invoice Date
- Client Name and Address
- Description of the goods/services provided



## 2. Expenses

### Use of home as office allowance

If you use part of your home as an office to perform tasks relating to your business, you may claim an allowance for using part of your home for work purposes. GRC will advise you on how to calculate your claim allowance.

### Business Travel

If you have to travel for your work and incur expenses, you may be able to claim tax relief on the cost of travel or money you've spent on food and overnight expenses.

### **You can claim tax relief for money you've spent on things like:**

Public transport costs, hotel accommodation, food and drink, congestion charges and tolls, parking fees, business phone calls and printing costs.

If you use your own vehicle or vehicles for work, you may be able to claim tax relief on the approved mileage rate. This covers the cost of owning and running your vehicle.

## Accommodation

If you need to stay away from home for work purposes any costs incurred can be claimed from the company and will be deductible for corporation tax purposes.

As with any claim, the expense should be incurred 'wholly and exclusively' for the purpose of the business. Whilst there is no specific limit on the cost of accommodation, as a general rule the standard of accommodation should not exceed that of your primary residence.

## Subsistence

The cost of lunch as long as it is shop/restaurant bought can be claimed when you are working at a temporary work place. If you are staying away overnight you may also claim for breakfast, an evening meal and a small subsistence allowance of £5 - £10 per day.

## Mobile phone & Internet costs

The use of one mobile phone per employee is permitted as deductible from the company's profits for corporation tax purposes. To qualify, the phone contract must be between the company and the mobile provider (the company name should appear on all bills) and payment for the phone needs to be made directly from the company bank account.

Similarly any internet connection must be in the company name and paid for directly through your business any personal use should not be excessive.

## Section 2

### Invoicing and expenses

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#### Training costs

Any costs linked to updating or enhancing your skill set can often be treated as a business expense. There would be an expectation that the skills gained from the training will be useful in the employee's duties.



# Tax Planning

Successful tax planning balances your salary and pension contributions with dividends to minimise your overall tax liability. The key methods you should be familiar with are outlined in the following section alongside important tax planning tips.

When it comes to tax planning, the level of salary you choose to extract from the company is an important consideration. Company Directors benefit from having the freedom to set their own salary without having to worry about National minimum wage legislation. This allows you to set your salary at the most tax efficient level.

In most cases, this figure is one set at the earnings threshold for employee NI (£12,570 for 2024/25) At this level there will be no income tax or NI to pay, however your earnings will be high enough to protect contributory benefit entitlement.

## 1. What are contributory benefits?

These benefits are to replace earnings, for example if you lose your job or are unable to work because of illness or disability. Whether you get the benefit depends on whether you (or in some cases your partner) have paid or been credited with enough national insurance contributions.



## 2. Your Salary and Corporation Tax

Your salary will also be treated as a deductible expense for Corporation Tax Purposes. The Corporation Tax starting rate for company profits for the 2024/25 tax year is 19% – so a business with £50,000 in annual profit will pay £9,500 in Corporation Tax. If your profit exceeds £50,000 an effective rate of 26.5% is applied to profits between £50,001 and £250,000.

The key to making sure you pay no more Corporation Tax than you have to is to claim every allowable deduction and expense to give an accurate picture of your profits.

## 3. Don't forget to pay yourself

When running a limited company solo it can sometimes be easy to forget that your business is a separate legal entity – your business' money isn't yours! So, to get it into your pockets, you need to pay yourself a salary. Salaries are business expenses, which reduce your profit and, in turn, your Corporation Tax. So before it's time to pay tax on your profits, pay yourself!

A word of caution though. Many business owners pay themselves with a mixture of salary and dividends – dividends are drawn from profit, so you need to be able to show you have profits available before issuing dividends. Otherwise HMRC will most likely reclassify your dividends as salary and you'll need to pay Income Tax and National Insurance Contributions.

## 4. Dividends explained

Dividends are payments made to company shareholders from the profits of a company after Corporation Tax. By operating your business as a limited company the most tax-efficient way of extracting money from your company is usually via dividends.



If your limited company has made a profit, it can distribute these earnings to shareholders by way of a 'dividend'. Profit is the money the company has remaining after paying all business expenses and liabilities, plus any outstanding taxes (such as Corporation Tax and VAT).

It's important to remember that dividends cannot be counted as a business expense when calculating your Corporation Tax and that it's illegal to pay a dividend if your company does not have sufficient profit after tax available to cover the dividend amount.

Any 'retained profit' in a limited company could have been accumulated over a number of months or years. If the director(s) choose not to distribute any excess profits as dividends at the end of the company's financial year, then they remain available to distribute at a later date.

## 5. Understanding the Dividend Allowance

You can earn up to £500 in dividends in the 2024/25 tax year before you pay any income tax on your dividends, this figure is over and above your personal allowance of £12,570.

### Dividend Tax thresholds for the 2023/24 tax year

The following tax rates and thresholds apply after the personal allowance of £12,570 is used.

	Dividend Tax Rate	From	To
Basic Rate	8.75%	£500	£37,700
Higher Rate	33.75%	£37,701	£150,000
Additional Rate	39.35%	£150,000+	

The table below shows the varying levels of take home pay achieved by understanding how to balance your salary and dividends when extracting money from your business.

	High Salary	Low Salary
Turnover	£75,000	£75,000
Salary	£67,008	£9,100
Employers NI	£7991	£0
Profit before Tax	£0	£65,900
Corporation Tax	£0	-£13,714

Dividends	£0	£52,186
Income Tax	-£14,235	-£6,973
Employers NI	-£3,351	£0
Take Home	£49,422	£54,313

## Taxes Explained

### How VAT works

VAT-registered businesses charge VAT on sales of most goods and services. VAT is generally charged at standard rate (20%), though there is also a reduced rate (5%) and a zero rate that apply to some goods and services.

If you are VAT-registered, you must charge VAT at the appropriate rate on your sales. Whether you are VAT registered or not, you'll be paying VAT on goods and services you buy from VAT-registered businesses.



VAT-registered businesses must pay the VAT they have charged to HM Revenue & Customs (HMRC). In effect, you are collecting VAT on their behalf. But provided you are not selling VAT-exempt goods or services, you can offset any VAT you have paid on your purchases against this. Businesses that are not VAT-registered cannot reclaim any VAT they have paid.

### VAT registration, records and returns

VAT registration is legally required if your VAT-taxable turnover exceeds the VAT threshold of £90,000 in a 12 month period or is expected to do so in the next 30 days alone. You may also choose to register if you think this will be advantageous to you.

VAT-registered businesses must keep proper VAT records and issue VAT invoices to their customers. You also need to complete VAT returns, typically quarterly, and pay HMRC any VAT you owe them.

All small businesses (and personal tax payers) now have their own online tax account where they can view tax transactions across the range of business taxes including Self Assessment, Corporation Tax, VAT and PAYE for employers and make payments at any time.



## Corporation Tax

Your corporation tax liability is calculated by multiplying taxable profits by the corporation tax rate. The amount of corporation tax payable depends on your total profits.

The single main starting rate of corporation tax is 19% on all taxable profits. If your profit exceeds £50,000 an effective rate of 26.5% is applied to profits between £50,001 and £250,000.

Keeping accurate corporation tax records of your income and expenses is essential - and a legal requirement.

You must pay your corporation tax within nine months of the end of your accounting period, or in instalments if your profits exceed £1.5m. You must also file your corporation tax return within 12 months. You are responsible for calculating the corporation tax due and making sure that you submit the return online in accordance with HM Revenue & Customs requirements.

Most companies find that using an accountant is the best way to ensure they meet their corporation tax obligations. In addition, your accountant can advise you on the best opportunities to reduce the total corporation tax (and other taxes) you pay. We will ensure that you do not miss a deadline.

## Self Assessment

The self assessment tax return is an unavoidable burden if you are liable for self-employed tax or have complicated income tax affairs. Both self-employed business owners and company directors must complete self assessment tax returns.



While nobody particularly likes paying income tax, the right approach to your self-assessment tax return will minimise the aggravation and can reduce the income tax you end up paying.

## You may need to complete a self assessment tax return

### This includes if you:

- are a sole trader earning more than £1,000;
- are a partner in a business partnership;
- have a total income over £100,000 or have complicated tax affairs;
- have an income over £50,000 and either you or your partner receive child benefit;
- get income from savings and investments or dividends over £500;
- have property income over £10,000, or profits over £2,500;
- need to pay capital gains tax on assets you have sold;

### Your obligations

HMRC must receive your tax return by the fixed filing date of 31 January. If you return your completed form online, HMRC will calculate any tax due automatically. Your final tax calculation will be available online within 72 hours. If you miss the deadline, you will incur a fine of £100. There are additional fines for returns which are filed more than three months late. The fines increase again after six and 12 months.

### What is a second payment on account?

For those who are required to make payments on account, your estimated tax liability for the year ahead is split into two in order to make the payment easier to manage. For example, if your tax bill for 2023/24 was £5,000, then HMRC will require two payments



on account of £2,500 each to go towards your 2024/25 tax bill. The first will be due on January 31 2025, and the second on July 31 2025.

You will only be required to make payments on account if your self-assessment bill was for more than £1,000. Also, if over 80% of your annual tax bill is deducted at source (from employment, for example), you are exempt from making payments on account.

For instance, you may have a total tax bill of £10,000 for 2023/24, £8,200 of which is paid via your salary - so you just need to make one payment of £1,800 in January, and no payments on account (as 82% of your tax is paid at source, through your salary).

### Making Tax Digital

Making Tax Digital (MTD) is a UK-wide initiative that is transforming how you submit and review your tax assessments. It's a complete move away from paper documents, which will be replaced by a verified online account that links you straight to HMRC. HMRC has already introduced online personal tax accounts. All small businesses and personal tax payers now have their own account. You can view your tax transactions across the range of taxes including self assessment, Corporation Tax, VAT and PAYE for employers and to make payments at any time.



## We are here to help

At GRC Accountants we understand the needs of startups and small businesses, and we will support you every step of the way. As a valued client you'll get unlimited guidance and advice from our team of dedicated expert accountants. We've been providing our unique combination of expert Accountants, dedicated bookkeepers and accountancy software training for over 10 years.

### Our promise to you

We take care of many start up businesses by giving them the tools to prosper. We can help with everything from company formation to taking on employees. Our recommended online accounting software Xero makes it easy to keep on top of your bookkeeping, and the unlimited advice from our accountants means we're always here to answer your questions.

### Unlimited accountancy support

Our expert accountants are always on hand to provide support tailored to your small business, from answering questions on business expenses to proactive advice on getting the most out of your accounts.

### Manage your accounts online

Our team are fully qualified in training you to use our recommended online accounting software Xero, an intuitive system which helps you keep on top of your limited company accounts and bookkeeping. Send invoices, record expenses and get a real-time view of your accounts and how much tax you owe - anytime, anywhere.

If you would like further information about our range of services, contact one of our team at GRC Accountants. We will meet with you to find a tailored solution that really works for you and your business.



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GRC Accountants work with a range of businesses  
& individuals tailoring our service to suit your needs

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