

Your business – making the rules work for you



1. Get ready for making tax digital (MTD)

If your business is VAT registered and has an annual turnover of more than £85,000, it will normally have to comply with the MTD regime from April 2019. This will mean keeping digital records of VAT-related expenses and sales using software, and submitting VAT returns to HMRC via MTD-compliant software. If you keep records using spreadsheets, they must be linked to MTD-complaint software to submit the VAT returns. If your turnover is below the £85,000 threshold, you won't have to comply with MTD until at least 2021.

2. Choose the most tax-advantageous structure for your new business

There are tax advantages to operating via a company as the rate of corporation tax is just 19%, compared to income tax rates of up to 46% (for Scottish taxpayers). A company can be used to shelter undrawn profits and make tax-efficient pension contributions. However, if your new venture is expected to make losses in the early years, you can use those losses more flexibly against your other income if you start the business as sole trader or partnership. The amount of tax you pay overall will depend on the manner in which you extract funds from your business. Whether the most tax-efficient approach can be used will depend on how much money you need for your personal use, and when you need to extract it.

3. Tell HMRC about your new business promptly

Sometimes it is difficult to know exactly when a business starts or when a hobby turns into a business. Selling items through online auctions can be fun, but as soon as you start buying items specifically to sell you are deemed to be trading. You then need to register your business through the gov.uk website or risk a penalty of up to 100% of the tax due. You may also have to register for VAT.